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A good beginning

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Politics this week

Jun 5th 2003
From The Economist print edition

Following the map

AP

George Bush met Arab leaders at Sharm el-Sheikh, then went on to **Aqaba** for talks with Ariel Sharon and Mahmoud Abbas. All three leaders issued strong statements: Mr Bush said Middle Eastern peace was his “highest priority”, Mr Sharon spoke in support of a “viable” Palestinian state and Mr Abbas vowed to use every means to fight terrorism.

See article: First steps on the road to peace

A UN-backed court in Sierra Leone indicted **Charles Taylor**, president of neighbouring Liberia, for war crimes. Mr Taylor is accused of having supported a Sierra Leonean rebel group notorious for hacking off hands. Mr Taylor, who was in Ghana, flew home to avoid arrest and foiled an alleged coup attempt.

See article: Talking peace, making war

A general strike brought cities in **Zimbabwe** to a halt, but planned mass rallies against the rule of Robert Mugabe were crushed with tear-gas, arrests and torture.

See article: Warning shots

Car trouble

Aung San Suu Kyi, Myanmar's opposition leader, was believed to have been hurt in an attack on her car by pro-government thugs. She was in custody at an undisclosed location. The government said four people had been killed in the clash. Some reports said the loss of life was much greater.

See article: Help needed

Sri Lanka's Tamil Tiger secessionists refused a government request to restart peace talks, which have been on hold since April. The Tigers insist that the government should first prepare a draft for an interim administration in the north and east of the island, where many Tamils live.

Zhou Zhengyi, a property and trade tycoon said to be China's 11th-richest person, was under house arrest in Shanghai under suspicion of financial irregularity.

Thousands of people held a candle-lit vigil in a **Hong Kong** park on the anniversary of the massacre of pro-democracy students near Beijing's Tiananmen Square in 1989. Under a proposed new law such demonstrations may be banned in the future.

See article: The history of Hong Kong

Singapore is to spend $116m on a campaign to attract visitors, now that the World Health Authority has declared it free of SARS.

See article: The latest on SARS

Pakistan's North-West Frontier province passed a bill introducing *sharia* law.

Partially criminal

The United States House of Representatives approved a ban on **partial-birth abortion**, a measure already passed by the Senate and championed by George Bush. If it survives inevitable court challenges, this will be the first criminalisation of a form of abortion since the *Roe v Wade* decision of 1973.

Foreign distrust of America has increased dramatically over the past year according to a new survey of 20 countries by the Pew Research Centre. The proportion of people with a favourable attitude towards the United States has dropped from 61% to 45% in Germany, 63% to 43% in France, 61% to 15% in Indonesia and 25% to just 1% in Jordan.

See article: Foreigners and Americans

AP

After a five-year man-hunt, Eric Rudolph, the main suspect in the **bombing** at the 1996 Atlanta Olympics as well as similar attacks on an abortion clinic and a gay nightclub, was caught in Murphy, a small town in North Carolina.

See article: The Atlanta bomber

Alan Greenspan, chairman of the Federal Reserve, repeated his warnings about **deflation**, saying that it might be necessary to cut interest rates in America.

Hillary Clinton, who kept quiet during her husband's sex scandal, confessed that she had wanted to wring his neck on learning of his “inappropriate intimacy” with Monica Lewinsky.

See article: Hillary Clinton's future

Strike force

AP

Striking railway workers and air-traffic controllers brought **France** almost to a standstill on June 3rd, while several million people took to the streets across the country in protest against the centre-right government's plans for pension reform. France's prime minister, Jean-Pierre Raffarin, said that he would refuse to back down but gave ground in a separate dispute with striking teachers.

See article: The future of trade unions

More than 1m **Austrians** went on strike, for the second time since the start of May, to protest against planned public-pensions reforms. The centre-right chancellor, Wolfgang Schüssel, said that he would not give in, despite more problems with his far-right Freedom Party allies in the ruling coalition.

Plans for economic reform put forward earlier this year by **Germany's** chancellor, Gerhard Schröder, were overwhelmingly endorsed at a congress of 524 delegates from his Social Democratic Party; officials said 90% had backed him. But he still faces a rough ride as he seeks to implement the plan during the rest of the year.

See article: Germany's economic reforms on track, for now

Ferruccio de Bortoli resigned as editor of *Corriere della Sera*, **Italy's** most independent and widely read newspaper, raising suspicions of pressure from the right-wing government. The newspaper's recent reporting, especially of legal issues, had angered the prime minister, Silvio Berlusconi, and his supporters.

See article: Milan media mystery

Jürgen Möllemann, a controversial former deputy head of the Free Democrats, Germany's liberals, died in a parachuting accident. He had been ousted from his party post after a financial scandal and accusations of anti-Semitism.

The **European Union** for the first time authorised the deployment of a military force outside Europe and independent of NATO. France's defence minister, Michèle Alliot-Marie, said that France would provide more than half of a force of 1,400 troops to be sent to Congo within a fortnight.

American officials cast doubt on the EU's plan to take over the current NATO-run peacekeeping operation in **Bosnia** by the middle of next year.

A woman suicide bomber killed at least 13 people in a bus in North Ossetia, a republic in southern **Russia** close to Chechnya.

Clear out

Argentina's new president, Néstor Kirchner, followed his purge of the armed forces' command by sacking senior police chiefs. He also called on Congress to impeach the Supreme Court.

Protests continued in **Peru** in defiance of a state of emergency imposed by President Alejandro Toledo.

See article: Peru's state of emergency

Canada's ailing Conservative party elected Peter MacKay, the son of a former cabinet minister, as its new leader. But Mr MacKay handicapped himself by accepting the support of members opposed to free trade with the United States.

See article: Canada's political leaders

Reuters

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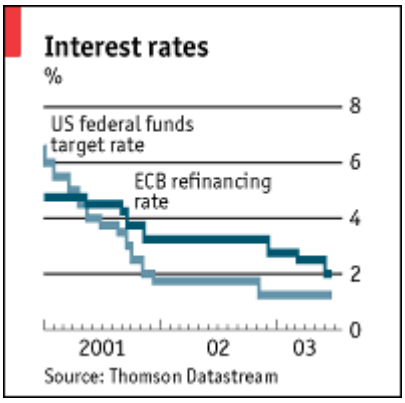
Business this week

Jun 5th 2003
From The Economist print edition

Half cut



The **European Central Bank** cut interest rates by half a percentage point to 2%, prompted by the desire to revive the euro area's faltering economies while inflation is slowing. Wim Duisenberg said that the euro was now "in line with economic fundamentals", that growth would pick up this year and that deflation in the euro zone was unlikely.

See article: Better late than never

Home economics

Martha Stewart, America's queen of soft furnishings, was charged with obstructing justice and fraud relating to her sale of shares in ImClone Systems, a biotechnology firm once run by a close friend. Her broker was also charged. Ms Stewart pleaded not guilty. Shares in her company, Martha Stewart Living Omnimedia, plunged as she resigned as chairman and CEO.

See article: An indictment for Martha Stewart

Ms Stewart is accused of dumping shares when forewarned of bad news about a cancer drug, **Erbitux**. Ironically, ImClone's shares rose sharply this week after Erbitux performed well in trials in Europe. Genentech reported similar good news about its cancer drug, **Avastin**. Its shares also climbed.

See article: A good week for cancer cures

In reverse

DaimlerChrysler gave warning of second-quarter losses at its American Chrysler unit of some *euro*1 billion ($1.2 billion), putting the brakes on its profits for the year. Its shares fell. Meanwhile, General Motors and Ford admitted that they would cut production in America after generous incentive schemes failed to boost vehicle sales significantly.

Profits at **Ryanair** climbed skyward. The low-cost airline made *euro*239m ($237m) for the year to March, 59% more than in the previous year. The airline's never-modest boss, Michael O'Leary, vowed to "destroy the airline business as we know it", and said that Ryanair would carry 30m passengers in three years' time, more than BA and Lufthansa.

British Airways' hopes of competing with Lufthansa in its domestic markets ended ignominiously. The British airline sold its loss-making subsidiary, **Deutsche BA**, for a symbolic *euro*1 ($1.17) to a German aviation consultancy. Meanwhile, signs that the worst troubles could be over for full-service airlines in Europe and America pushed shares higher.

Hard for software

PeopleSoft announced that it would acquire **J.D. Edwards**, a rival business-software firm, for shares worth some $1.6 billion. Britain's Invensys said that it would sell **Baan**, once Europe's second-largest

software business, to two American private-equity firms for $135m. More consolidation is expected; weak demand has sharpened the need for competitiveness in the industry.

IBM's shares fell after the computer giant revealed that it is under investigation by the Securities and Exchange Commission for questionable accounting practices. The inquiry is looking into the way that IBM accounted for revenues in 2000 and 2001.

See article: Accounting scandals

Palm said it will tighten its grip on the hand-held computer market by purchasing **Handspring**, a smaller rival set up by a founder of Palm. The all-share deal values Handspring at around $190m.

Media free-for-all

America's Federal Communications Commission approved a wide relaxation of America's restrictions on **media ownership**. The rules had limited the number of radio stations, TV businesses and newspapers that a company could own in one market, and restricted cross-ownership of different media. A sensible reform of outdated laws unsuited to the age of the internet, suggested those in favour; a death blow to diversity, wailed critics.

Joseph Lelyveld was named interim editor of the *New York Times* after its editor, **Howell Raines**, and his managing editor, Gerald Boyd, resigned. The *Times* had been plagued by a “journalistic fraud” scandal. Arthur Sulzberger, the paper's publisher, said the departures were “best for the *Times*”.

Vivendi Universal off-loaded **Spencer Gifts**, a novelty-goods retailer, to a group of investors for an undisclosed sum. The media giant is selling a raft of assets to raise cash and reduce its mountain of debt. Vivendi later told investors that it was “over the hump” of its cash crisis.

Cable & Wireless announced 1,500 job losses in Britain and a withdrawal from its American operations as part of a restructuring effort. The struggling telecoms firm reported a record annual loss of £6.5 billion ($10 billion).

Greening the banks

Ten of the **world's leading banks** acceded to the demands of protesters and agreed to abide by the World Bank's voluntary code of environmental standards when making loans for infrastructure projects, particularly in poor countries. The banks will follow strict rules for lending on dams, oil pipelines and the like, that threaten nature or locals. Inevitably, some green groups complained that the rules are too soft.

NASD said that it was selling the **American Stock Exchange** (Amex), the country's third biggest, to **GTCR Golder Rauner**, a private-equity firm, for some $110m.

See article: A new owner for the American Stock Exchange

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America, Israel and Palestine

A good beginning

Jun 5th 2003
From The Economist print edition

But a long way yet to go

Reuters

Get article background

IT HAD to be done, and it has been. America's wholehearted bid for an Israeli-Palestinian peace has long been the prerequisite for wholehearted Arab support. Three years ago, Bill Clinton gave it his all, and cannot be blamed that his striving ended in failure. Now, after Iraq, as the Middle East quivers with the hope of awakening democracy, and with the fear of it all going disastrously wrong, American surefooted determination is more crucial than ever. At Sharm el-Sheikh and at Aqaba this week, George Bush made a good beginning, reiterating America's commitment to a just peace, in which Israel is safe from Palestinian terrorism, and the Palestinians enjoy a state that is a single geographic unit, not a sham of Bantustans.

Moreover, America's president sounded as if his dedication was not just for the photo opportunity. As well as appointing a special envoy, John Wolf, who would be reporting back on whether or not the Israelis and Palestinians were fulfilling their commitments, Mr Bush said that Condoleezza Rice, his national security adviser, and Colin Powell, the secretary of state, would make implementing the road map to peace their "highest priority". Standing either side of Mr Bush, Ariel Sharon and Mahmoud Abbas each made strong statements. Israel's prime minister said he would seek to restore normal life to the cooped-up, harassed Palestinians in the occupied territories, and spoke of working towards a viable Palestinian state; the Palestinian prime minister swore to make every effort and use every means to end the armed *intifada*; terrorism, he said, was contrary to the Islamic faith.

So up the precipitous peacemaking mountain they must now begin to climb. To be sure, nobody, by choice, would start the journey from where the Israelis and Palestinians are now. From near the peak at Camp David in 2000, the two sides have slid bloodily down. Israelis live in fear of suicide bombs; Palestinians in fear of Israeli punishment. Barely a vestige of trust or goodwill survives. The main thing going for peace, apart from America swinging its might into the endeavour, is that so many people on both sides are fed up with things as they are, that they may be prepared to swallow hopes that cannot be satisfied: the hope, by some Israelis, that they can cling to occupied land; the hope, by Palestinians, that they can preserve the right of return to Israel proper.

The road map, provided by America, the European Union, the UN and Russia to guide the mountaineers, does not tell them how to get to their shining destination, the vision of two states living peaceably side by side. The last, and trickiest, stages—deciding on borders, refugees, Jerusalem and so on—remain unmapped. But it does provide a mass of instructions for conquering the lower slopes, by rebuilding confidence, by returning sanity, and humanity, to people who at times seem to have lost them. These instructions must be implemented faithfully, with the Israelis and Palestinians working in parallel and simultaneously.

The responsibility for keeping them on track has to be America's. Other actors—Arab and European governments—are reduced to fairly minor supporting roles. Saboteurs among the Arabs (and Iranians) could and should be made to desist from backing radical, anti-agreement Palestinian groups: at Aqaba, Mr Abbas was severe with his "partners in the war against occupation" who funded terrorism. Better-intentioned Arabs could continue the process begun at Sharm el-Sheikh by throwing their weight behind Mr Abbas, who remains vulnerable. European governments should direct influence and money towards helping Mr Abbas calm his uncalm people; they could also, Israel permitting, monitor the map's

implementation. The trouble here is that Israel may not permit: notoriously, it is inclined to take notice of America alone.

By accepting the map, the Palestinians and Israelis have undertaken to bring violence to an end: terrorism on the Palestinian side; ruthlessness on Israel's. Mr Abbas believes he can produce the ceasefire that the map demands and, crucially, that he can arrange for it to be respected by Hamas and the other radical militias—but only if Israel, at the same time, suspends its policy of raids, assassinations and house demolitions, and frees a serious number of Palestinian prisoners.

He seeks co-operation, rather than confrontation, with Hamas. This is because he does not believe that he can go after the militias, arresting them as Yasser Arafat did, briefly, in 1996, let alone dismantle and disarm their organisations, as the Israeli cabinet calls for in the first of its 14 “reservations” to the map. Mr Abbas's weakness is evident—his security services, and indeed all his institutions, have been crippled by Israel's attacks; appointed by the still popular Mr Arafat, he has no base of his own—but so is his desire to reach an end to the Palestinians' self-destructive violence.

Thin end of the settlement wedge

Mr Sharon, like Mr Abbas, has provided a strong signal that he is ready to embark on the journey; where he expects it to end remains a riddle. But even to start he has been obliged to take on his own followers, shaping up for a fight with the right wingers he used to lead. Told by the road map to dismantle the outpost settlements that have gone up in the past two years (believed to number up to 100, though many are tiny), and to stop the never-ending expansion of the older settlements, Mr Sharon has agreed to get rid of some of the outposts that Israel calls unauthorised—a caravan or two plonked down by ideological extremists on top of a Palestinian hill without planning permission from the army or anybody else.

This has aroused furious resentment in the settler movement, which sees it as the treacherous thin end of the wedge, the start of the giveaway of land that the movement holds to be part of Israel. There are rumours inside Israel that Mr Sharon is planning a far wider evacuation, rumours that will have been enhanced by the prime minister saying at Aqaba that he understood “the importance of territorial contiguity in the West Bank for a viable Palestinian state.” Currently, Israeli settlements block any notion of contiguity. Mr Bush had earlier spoken of the need for “continuous” territory. If the president has indeed carried Mr Sharon on this, good on him.

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Britain's beleaguered prime minister

Bliar?

Jun 5th 2003
From The Economist print edition

Why the row over weapons of mass destruction is so dangerous for Tony Blair

Get article background

AP

IN EVERY political career there is a moment people look back on: that, they say, was when it all started to go wrong. For Margaret Thatcher it was the poll tax riot, when opposition to her flat-rate tax exploded into violence; for George Bush Snr it was a visit to a supermarket, when his bafflement revealed that he had no idea how ordinary people lived; for John Major it was Britain's expulsion from the ERM, which blew the Tories' claim to economic competence; for Bill Clinton it was when that dress went for DNA testing, and his moral grubbiness took physical form. Could this be that sort of moment for Tony Blair?

On the face of it, it seems an absurd idea. Nobody thinks the Tories can win the next election—not even the Tories. There is no sign of a leadership challenge to Mr Blair of the sort that toppled Margaret Thatcher. The rivalry between him and Gordon Brown, the chancellor of the exchequer and heir presumptive, is real but exaggerated by newspapers who need to spice their politics with a little drama. Mr Blair is unassailable.

Yet there is danger in the air. The row over the hunt for those damned elusive weapons of mass destruction is playing far worse for Mr Blair than it is for George Bush, largely because Britons were always more sceptical about going to war than Americans were. As a result, things are beginning to go wrong for the prime minister.

It isn't just the anger against him within the party, though that is mounting. The hostility of those who opposed the war is compounded by the unease of those who went along with it because they believed Mr Blair's claim that Saddam Hussein could launch weapons of mass destruction within 45 minutes. Clare Short, former international development secretary, who resigned shortly after the war, says that Mr Blair had “duped us all along” by spinning intelligence reports to support his case. Robin Cook, a former foreign secretary, who resigned from the cabinet before the war, has expressed his concerns more circumspectly but just as forcefully.

Nor is it just that popular support for Labour seems to have taken a dip, though a YouGov poll in the *Daily Telegraph* last week must have startled Mr Blair. It showed the Tories at only one percentage point behind Labour, the smallest gap since 1992, aside from a blip in 2000 when they briefly overtook Labour during fuel-tax protests. Mr Blair's personal score has slumped even further. His satisfaction rating last week was minus 18, compared with a positive rating of 18 after the 2001 election, and one of 60 after the 1997 election.

Tony washes whiter

A dip in the polls is not, in itself, all that important. But it is a symptom of a real danger—of Mr Blair's vulnerability to the charge that he misled people over the case for war.

Mr Blair's vulnerability springs from the same source as his principal strength. This government has won two landslide victories and maintained a remarkable opinion-poll lead not because of what it has done in office. Its most important achievement has been negative—not messing up the economy. Given post-war

British economic history, that is no mean feat; still, it has not, so far, delivered the better public services it promised. It has spent plenty of money on health care, but got little in return; the education secretary, Charles Clarke, finds himself besieged by troubles (see article). And, as the economy slows and taxes rise to pay for rocketing health spending, its reputation for economic competence is at risk.

Labour's appeal to voters relies less on its record than on its leader. Mr Blair plays well with the voters. That's why Labour MPs put up with a man far to the right of most of them. And what does Mr Blair's appeal rely on? Certainly not on the dodgy but irresistible charm of a Bill Clinton, nor on the rugged simplicity of a George Bush, nor on the hawk-eyed determination of a Margaret Thatcher, nor even on the flat-vowelled “ordinary bloke” image that Mr Blair has tried rather unconvincingly to cultivate. It relies, rather, on his being an extraordinary bloke: a man who, in a cynical age and a sceptical country, is driven by deep moral convictions. “Trust me,” he says. “I'll work out the right thing to do, and then I'll do it.”

The father, the Son and the Holy Blair

This image is not artificial. It is probably as close to the real Tony Blair as it is possible to get. And it works, so Mr Blair plays it up. His speeches on quite mundane issues reach for grand abstractions. The religious symbolism in some of his photo-calls—the 2001 election campaign launched in front of a stained-glass window, last week's image of khaki-clad troops in a khaki desert, with Mr Blair in bright white shirt, arms uplifted—is all too plain.

It seems odd that the determinedly secular British go for this sort of thing, but they appear to. Perhaps they just like the idea of handing over responsibility for moral decisions to somebody else. They were doubtful about going to war, but, after weeks of Blairite persuasion, a big majority against in the opinion polls turned into a majority in favour.

Now many people think that the grounds for Mr Blair's conviction were flimsy. At worst, it may be that, as Ms Short claims, he took Britain to war on a false pretext. Or perhaps he simply selected the intelligence information that suited his case. But even if he did not purposefully mislead people about the nature of the threat from Saddam Hussein, he is still in danger, almost regardless of whether Iraq now becomes a prosperous democracy or peace breaks out in the Middle East. After all, the British people trusted what he said. So far, there is more indication that it wasn't true than that it was.

Tony Blair's power lies in his persuasiveness. He persuaded the Labour Party to abandon many of its long-held left-wing convictions. He persuaded voters to elect a party in 1997 which, when last in office, had brought the country to its knees. He persuaded Britain to go to war with Iraq. But persuasion depends on trust; and, if that goes, so does the basis of Mr Blair's power. What happens, for instance, if he eventually calls a euro-referendum, and, facing a nervous electorate, says, with that familiar gleam in his eye and thrust of his chin: “Trust me. I know the right thing to do”—will they?

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Malaysia

Abolish the ISA

Jun 5th 2003
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The release of four political prisoners merely highlights the need for reform

AP

ON JUNE 1st, Malaysia's government announced the release of four leaders of the *reformasi* opposition movement who have been held without trial since 2001 under the country's Internal Security Act (ISA). It is tempting to see this as a sign that, as Mahathir Mohamad prepares to hand over power to his personally-selected successor, Abdullah Badawi, a more tolerant Malaysia is emerging. After all, it would have been perfectly possible, under the ISA's provisions, to renew the detention orders for a further two years.

Tempting, but probably wrong. For one thing, it is hard to resist the conclusion that the four have been released only because they no longer pose much of a threat to the ruling party: their own party, Keadilan, has faded into electoral insignificance. The primary leader of the *reformasi* movement, the former deputy prime minister Anwar Ibrahim, whose intellect and charisma means that he indeed poses a threat, is still safely behind bars. Mr Anwar recently had his appeal against a sodomy conviction rejected, despite the fact that the only witness (the alleged victim) had even changed his evidence as to the year in which the offence occurred. Two other Keadilan leaders remain behind bars, but are due for release next week.

But the real point is that, even if all the *reformasi* detainees are released, the ISA will remain. Drawn up in the early 1960s, when there was a genuine threat from Chinese-backed communists, the ISA is an autocrat's dream. Judicial review of arrests carried out under it is limited to questions of procedure: at no point are the authorities required either to produce evidence, or even detailed charges. The number of people held is not disclosed, but is reckoned to run into the hundreds. Most of these are allegedly connected to Islamic terrorist groups, but there is considerable scope for political abuse, as the arrests of the Keadilan activists demonstrate. (The government claims that they planned to use violence to overthrow the state, but has never attempted to prove this: if it were true, it would surely be madness to let them out now.) Many of the supposed terrorists happen to be connected to another opposition party, PAS, which already controls two states, and aims to win more in elections due by the end of next year.

Government supporters argue that, with a genuine terrorist threat in South-East Asia, the ISA is still needed, and also like to score a cheap point by referring to it as Malaysia's equivalent of America's post-September 11th Patriot Act. But the problem with the ISA is that it lacks any sort of safeguard, which is why it is so easy to abuse it. The Patriot Act fares somewhat better on these grounds—certainly, even the most ardent anti-American does not contend that the Patriot Act is being, or could conceivably be, used against legal political parties that oppose the Republicans. But anyway, a bad law in America is no justification for a bad, and much older, one in Malaysia. That is not to say that there is no case for a security law in Malaysia, just that the ISA is the wrong one.

If it were only western activists, or interfering newspapers, who objected to the ISA, that would be one thing. Dr Mahathir easily brushes aside such talk, on the grounds that it comes from “white people”. But in fact, a broad-based coalition of forces inside Malaysia itself is campaigning against the act. It now includes the Bar Council and Malaysia's official human-rights organisation, Suhakam, neither of them known for striking radical attitudes. When Mr Badawi takes over in October, he would do well to listen.

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About sponsorship

The fragile Andes

Handle with care

Jun 5th 2003
From The Economist print edition

Outsiders should be doing more to help

SPL

FOR years, the scale of Colombia's tangled conflicts has dwarfed those of most of the world's better known troublespots. Drug money and other forms of crime and plunder have allowed three large irregular armies, two claiming to be of the far left and one of the extreme right, to flourish. The result has been a heavy toll in murders and kidnappings, while some 2m Colombians have been driven from their homes, a figure surpassed only in Sudan and Angola.

Fed up with this mayhem, Colombians last year elected as their president Álvaro Uribe, on a promise of tough measures for "democratic security". Mr Uribe is now starting to turn back the rebel tide (see article). With his support, the Americans are wiping out Colombia's coca crop through aerial spraying at a pace unimaginable only months ago. Within a year, it is claimed, Colombia may cease to be an important source of drugs. Some American officials foresee their extensive aid to Colombia winding down from next year.

This is wildly optimistic. What is more, Colombia stands at the strategic heart of a very fragile Andean region. In Venezuela, Hugo Chávez, an elected but incompetent populist strongman, is destroying his country's economy. Peru has this week been gripped by protests, called in defiance of a state of emergency imposed by a deeply unpopular president. In Bolivia, long seen as a success story for democratic reform, a weak and divided coalition government was shaken by rioting in February. In Ecuador, Lucio Gutiérrez, like Mr Chávez a former army colonel and failed coup leader, was elected president last year and has started well, but has already been abandoned by many of his supporters.

Riven since colonial times by ethnic divisions and handicapped by challenging geography, several of the Andean countries have long suffered poverty and instability. And their differences are as important as their similarities. Yet there is one common destabilizing factor for which outsiders are responsible. For a quarter of a century, cocaine has spread violence and corruption around the region, undermining already weak institutions of law and order. As long as cocaine is in demand and illegal (and therefore lucrative), success against coca in Colombia is likely to spread the crop elsewhere in the Andes. *The Economist* believes that cocaine's legalisation would be less costly than failed prohibition. Until that happens, other policies will be second-best, but they need to be tried.

More aid, and legal trade

It would be folly not to recognise that drugs, and the violence they beget, are a problem throughout the region. Mr Uribe deserves support from his neighbours, especially a reluctant Brazil, in his call for more security co-operation. Meanwhile, countries that consume drugs should cough up far more aid, especially to Peru and Bolivia, which are likely to see an increase in coca cultivation. Too often, the United States has attempted to wage its "drug war" on the cheap in the Andes.

Legal exports from Andean countries need permanent tariff-free access to rich-country markets. Both the United States and the European Union offer some trade preferences. These are useful: the extension last year of America's Andean Trade Preference Act to textiles has alone created 20,000 extra textile jobs in Medellín. But there are strings. To qualify, 70% of Colombian clothing exports must be made with American cloth, for example. And the Andean act runs out again in 2006.

The preferences offered by the European Union expire next year, and are just as grudging. In an absurd punishment for success, from November the EU will start levying tariffs on Colombian flowers and fruit because these are now seen to be “internationally competitive”. Such nonsense is yet another reason why the Doha “development round” of world trade talks cannot be concluded fast enough. If the fragile Andes are not to become explosive, local political leaders bear the prime responsibility. But their peoples also have a right to more generous and fair treatment from outsiders.

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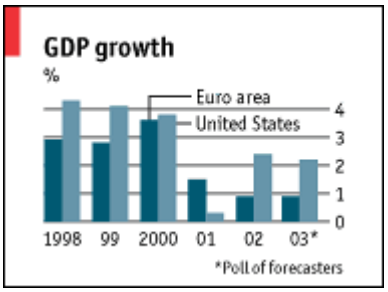
Reform in Germany and France

Don't give in

Jun 5th 2003
From The Economist print edition

Two articles related to Europe's wave of strikes. First, the battles for reform in Germany and France



ODD though it may sound, the rash of strikes in France and the rumble of discontent among Germany's trade unions are both hopeful signs—provided the governments of continental Europe's two biggest economies do not buckle in the face of all the anger on the streets and in the factories. For sure, both governments, as different in ideological background as they are in tactics, have a long and bumpy road still to travel. But both are starting to push their countries in the right direction. And so far, both Germany's chancellor, Gerhard Schröder, and France's prime minister, Jean-Pierre Raffarin, deserve plaudits, as well as prods to do more.

In France it would certainly be worth a few weeks of chaos if the outcome were to be victory in the battle over pension reform, without too many concessions; and Mr Raffarin's record is more hopeful than the hitherto pusillanimous Mr Schröder's. But if the German chancellor can force through his labour-market and welfare reforms without his habitual backsliding (see article), he has at least a chance of starting to recharge Germany's feeble economic batteries. That would be an even greater boost for Europe's economy as a whole, for Germany is both the continent's economic giant and, over the past few years, its worst performer.

The current state of affairs could hardly be gloomier. Germany's economy grew last year by a paltry 0.2% and may not, at present, be growing at all; France's rate only just surpassed 1% last year and at last count was virtually flat. Unemployment in the two countries is rising, at more than 9% in both France and Germany. The plain truth, which even the most ardent of Europe's welfare-state enthusiasts can no longer deny, is that Europe's economies have been trailing woefully behind America's. The reasons: a sclerotic labour market, forests of red tape and overregulation, vast welfare and non-wage labour costs (especially in Germany), restrictive hiring-and-firing practices, and a failure (now starting to be addressed in France and Germany) to defuse a pensions time-bomb caused by greying populations and too-early retirement on extravagant terms. Add the high value of a euro that is inhibiting exports, the suffocating rules of the euro zone's “stability and growth pact” and the slowness of the European Central Bank to lower interest rates (see article), and you have economies whose stagnation has both systemic and cyclical causes.

A tale of two kitties

Mr Schröder has a lot more to do—and has been taking his time about it. But deft politicking seems to have got most of his party behind a clutch of reforms that would start loosening the labour market and tackling welfare excess, not least by making unemployment benefit harder to get. Characteristically, he has been offering symbolic sops to the left, recently promising, for instance, to “examine” the case for slapping on a wealth tax. But he is making progress. He will, however, need all his famed tactical dexterity over the next few months to keep moving ahead, especially as the opposition has a majority in the Bundesrat, the upper house, which can block about half of legislation, including all financial bills.

France is a bit different. Its economy did well in the late 1990s; between 1998 and 2000 it grew at an average yearly rate of 3.6%. But it suffers from many of the same structural faults as Germany. Loth simply to ram reform (pensions are only the start) down the throats of an unprepared citizenry, Mr Raffarin has proved politically cannier than the last centre-right prime minister, Alain Juppé, who failed lamentably in 1995 when he tried to do so. But French governments of all stripes have long had a habit

of caving in to those who make mayhem on the streets. Mr Raffarin has already given ground to striking teachers. He now has to show his mettle.

One big problem for both leaders is the ambivalence of their voters. The average German's head says that change must come, yet his heart is still not fully convinced; he sees his cosy welfare state—and the stability and lack of visible poverty it has brought—as an achievement not to be lightly discarded. In France an even sharper paradox persists: most people know that their public-pensions system is unaffordable; yet more than half of them, if polls are to be believed, sympathise with the strikers who have brought their country to a halt. The same paradox also faces other reform-minded governments across a continent where consensus has been king. But if the leaders of France and Germany can find the courage and skill to face down the opponents of reform, prospects for a Europe-wide recovery would get a huge boost.

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About sponsorship

Trade unions

Adapt or die

Jun 5th 2003
From The Economist print edition

Unions must start providing services their members need

AFP

DO NOT be fooled by events in Europe this week. True, parts of France, Germany, Austria and Italy have been brought to a standstill by strikes. True, government efforts in all these countries to reform unaffordable pension systems are under ferocious attack from tough-talking trade-union leaders (see article). These things suggest that unions remain, as much as ever, a force to be reckoned with. In reality, they are not. Unions everywhere are in decline, and to a large extent they deserve to be.

The first modern unions were founded in the 19th century when class warfare had some meaning. But the battle to establish workers' rights and to enshrine principles of proper conduct by employers was won in the developed world a long time ago. In modern democracies, strikes are a constitutionally offensive way to advance political arguments. They are also a damn nuisance. Increasingly, this view is widely shared. As a result, the distinctively European tradition of unions as a political movement (often with political parties at their command) is more or less exhausted. Left-of-centre parties are now more likely to be embarrassed than empowered by their union connections.

Show them the money

Politics and class warfare aside, unions would still be very useful to their members, of course, if they succeeded in the more humdrum goal of driving up wages. But this too is an increasingly difficult task. Privatisation, deregulation, technological progress and trade are all conspiring to undermine local monopolies and strengthen competition, and thus to shrink the pool of economic rent that unions could once tap into. Unions in their traditional role were pro-worker (at least, so far as their own members were concerned) but anti-consumer: they wanted high prices and restrictive practices, because they could extort a share of the loot. No longer, with one big exception: unions remain strong in public-sector industries. In that declining sector, taxpayers can still be made to pick up the bill. Elsewhere, consumers have gained the upper hand, so there is less loot to share. When workers ask themselves whether the union is worth its membership dues, they are tending to decide that the answer is no.

As if all this were not bad enough, the unions have remained stubbornly (and often comically) old-fashioned. Dominated by men and dogmatic by instinct, they have been leaden-footed in response to profound changes in industries and markets. More and more women work, for instance; and ever more workers of either sex work part-time. You would never know it from a visit to most union headquarters: these changes seem to have passed most unions by.

Would it matter if the unions simply fizzled out altogether, as, on present trends, they seem certain to? Actually, it would be a pity. Fortunately, unions are no longer needed to fight the class war, nor can they any longer expect (outside the public sector) to get their members paid more than the market will bear. But with a bit of imagination they might still play a useful role in the modern economy. This would require them to think harder, or at all, about the services their members or could-be members would nowadays value.

Advancing a political agenda is not one. Why should workers give a hoot what their union leaders think of the war in Iraq, say, or Europe's new constitution? That is not what they pay them for. On the other hand, a collective voice in dealing with a company's managers and owners does remain a very useful

service—provided that the voice speaks, as most workers would wish it to these days, in a spirit of outward-looking co-operation rather than mutually destructive confrontation. And workers today, facing an array of difficult choices that their poorer and less sophisticated predecessors were spared, would value honest disinterested advice on all manner of work-related matters: pensions, insurance, taxes and benefits, and assorted legal questions. Unions ought to be well-placed to offer such help. What does it matter, really, if the result is not necessarily to get an employer, or a government, over a barrel?

Governments deserve much of the blame for freezing the unions' mentality in the confrontational mode. The legal immunities that unions in most countries enjoy are a weapon for the war that no longer needs to be fought. The tasks that modern unions could and should be concentrating on need no special protection from the laws that apply to everybody else. Unions are no longer needed (if they ever were) to advance basic rights through economic blackmail: today's rich countries have better ways of discussing such matters. Depriving unions of the means to engage in blackmail, by curbing their legal immunities, would help to channel their thinking in a more productive direction—before it is too late.

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Letters

Jun 5th 2003
From The Economist print edition

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Beauty tips

SIR – You rightly point out that much of the concern over the dangers of cosmetics is misdirected ("Pots of promise", May 24th). However, you say that "consumers are well informed". In fact, for most consumers the source of their information is cosmetics advertising. As a result, the knowledge even of many doctors and scientists is close to zero. Admittedly, many consumers will continue to believe that creams can reduce their age or fat or increase their breast size regardless of the evidence. But by far the largest proportion believe it because that is what the adverts tell them. Clearly, it is spending huge sums on advertising that is "worth it".

Stephen and Gina Antczak
Oxted, Surrey

SIR – So beauty increases your value on the labour market. Jan Tinbergen, a winner of the Nobel prize for economics, advocated a tax on intelligence because it provides an unfair natural advantage to its beholder. A tax on beauty, like a tax on intelligence, would be one of those rare taxes that people would actually be proud to pay. However, the truly intelligent would find a way to conceal their tax base.

Wim Van den Panhuyzen
Brussels

SIR – Looking at the pictures illustrating your article I am reminded that many of the women I see on the streets of New York as well as in periodicals have neglected one of the simplest and most cost-effective beauty tips: to smile.

Edwin Sheffield
New York

Family mistake

SIR – I am deeply disappointed by and take issue with your comment that the "McCain brothers of New Brunswick, owners of the world's largest frozen potato-chip business, no longer speak to each other, even though their neighbouring houses overlook a potato-processing plant on the St John River" (Face value, May 17th). This is totally erroneous. First, the two brothers speak by phone weekly and see each other often (certainly on a monthly basis). Second, although their houses are neighbouring, one brother's principal residence is in Toronto, an hour-and-a-half away by air. You did get the last part right. Their houses do overlook a potato-processing plant—miles in the distance.

Mark McCain
McCain Foods
Toronto

Overpaid and over there?

SIR – You appear to endorse the idea that because over half of GlaxoSmithKline's sales are in America and Jean-Pierre Garnier spends more time there than in Britain, that this somehow justifies augmented pay ("Have fat cats had their day?", May 24th). The domicile of any employee, including the chief

executive, is a personal choice, unless for some reason it is contractually imposed. In the former case it has no bearing on the worth of the job to the company; in the latter the compensation should equal the differential cost incurred.

The sophistry used by GSK and others extends to justifications such as market equivalence and the need to attract the best. However, the lesser rewards associated with high rank in the military, law, academia or public office do not appear to dissuade fine minds and people of stature.

Paul Hayward
Willington, Bedfordshire

Historical settlements

SIR – Historical comparisons are always risky and never exact but it is difficult not to see a parallel between Northern Ireland and the Israel-Palestine conflict ("It's the settlements, stupid", May 17th). Several plantations (settlements, in today's language) in 16th and 17th century Ireland failed because there were too few settlers. The "plantation of Ulster" was the successful exception. This laid the basis for a very long period of social tension, unrest and, from time to time, open conflict which is being resolved only now, slowly and painfully. Unless the risk of similar problems becoming embedded long term is to be avoided, the nettle of Israeli settlements must be grasped firmly now.

Tom Gillen
Dublin

SIR – Were the Israelis actually to freeze the settlements, might not terrorists, sensing progress, redouble their efforts to derail the peace process by an escalating of suicide attacks? Is that not what the recent spate of suicide bombings is all about? Isn't it the terrorism, stupid?

Michael Stern
San Antonio, Texas

Protecting the environment

SIR – Your article about the resignation of Christine Todd Whitman as head of America's Environmental Protection Agency suggests that the Competitive Enterprise Institute's opposition to the Kyoto protocols was part of a plot to undermine her position ("The end of the road", May 24th). While we are flattered by the implication that we had enough influence to oust such a senior figure in the administration, we need to set the record straight.

We will oppose the Kyoto protocols whoever is in charge at the EPA. They would burden America with a huge economic cost for a benefit that is negligible even if you accept the worst-case scenarios for climate change, which are themselves scientifically flawed. Kyoto is a huge misallocation of resources that must be opposed for everyone's benefit. The thinking that Kyoto must be a good thing, despite the scientific and economic weaknesses of the argument, is exactly the sort of rhetoric that bedevils the EPA. Its new director needs to confront the erroneous assumption that more ill-thought-out and costly regulations are the key to achieving better environmental quality. In the absence of a clear thinker at the EPA, we are proud to provide that service.

Fred Smith
President
Competitive Enterprise Institute
Washington, DC

French lesson

SIR – William Bennett is a former secretary of education who tried to abolish his department; a former "drug czar" who smoked; a portly scold who preached self-control and abstinence; a heavy gambler who ploughed millions made from moralising books into casinos (Lexington, May 10th). That the world contains Mr Bennett and his like should come as no surprise; it always has done. François de la Rochefoucauld, a cynical observer of Louis XIV's court, understood the type well when he wrote: "Hypocrisy is the homage that vice pays to virtue."

James Powell
Los Angeles

Brew that is true

SIR – Your description of Chinese beer as “cheap swill” is incorrect (“Masks off, down the hatch”, May 17th). I lived in China for two years and occasionally availed myself of the opportunity to sample local brews. Their quality was entirely satisfactory, a view shared—on an almost daily basis—by German and French colleagues. I am disturbed by the thought that the excellent and pleasingly priced Chinese beers might be replaced by overpriced maiden's water supplied by large western brewers.

Geoff Cockayne
Leeds

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George Bush's travels

Putting the world back together again

Jun 5th 2003 | AQABA, CRACOW AND EVIAN-LES-BAINS
From The Economist print edition

AP

American diplomacy is widely regarded as arrogant and selfish. The president's trip this week should refine that verdict

GEORGE BUSH began at Auschwitz. He laid wreaths at the wall of death, a place where prisoners were summarily shot, and at the unbearable ruins of Birkenau's gas ovens, a jumble of bricks that remain as they were found in 1945, half-destroyed by the retreating Nazis.

The sombre symbolism of the camps suited a week-long tour to the two most troublesome objects of American diplomacy. As the president said later that day, “They remind us that evil is real and must be called by name and must be opposed.” That was aimed at critical Europeans. The camps also provide—though this remained unspoken—terrible reminders about Jewish insecurity. This was not irrelevant to the second half of the visit, to the Middle East.

Since September 11th 2001, the foreign policy of almost every other country has been driven by reaction to America's willingness to project its power unilaterally. Critics have argued that the Bush administration has too narrow a view of America's interests and uses its immense power disruptively. They have sought to restrain it, Gulliver-like, in a net of obligations. Supporters have tried to steer it, engaging in America's foreign-policy debates before decisions get made, and backing them afterwards. Arab states have hoped to attract its attention by persuading the president to commit himself to regional peacemaking.

This week they had their wish. Mr Bush made his first visit to the region, standing with the Israeli and Palestinian prime ministers and the king of Jordan at Aqaba, in Jordan, to announce that they would take the first steps on the road map, supported the day before by Arab leaders at their summit in Sharm el-Sheikh, in Egypt. In Aqaba, Ariel Sharon and Mahmoud Abbas, the Israeli and Palestinian prime ministers, recognised each other's right to have a state. Mr Abbas reiterated Israel's right to peace and security and vowed to end both the armed *intifada* and incitements to violence against Israel. Mr Sharon confirmed Israel's acceptance of the “two-state solution”, allowed that a Palestinian state would have to be formed on contiguous territory to be viable, offered to ease the plight of Palestinians under occupation and said his government would begin to remove “unauthorised outposts”. These declarations all follow the road map.

Several developments made this possible. Victory in Iraq has prompted America and Arab regimes to push anew for peace, as happened after the first Gulf war. A reformed Palestinian Authority—itself partly a product of American pressure—is a more acceptable and viable partner. As important, terrorist strikes, especially those in Saudi Arabia last month, have given Arab governments a bigger stake in settling the dispute, since it fuels violence that threatens them, too.

“We will continue to fight the scourge of terrorism,” said Hosni Mubarak, Egypt's president, “regardless of justifications and motive.” The lack of a qualification marks a shift. Arab regimes—though not Syria, which denounced the statement—now accept that terrorism by Palestinians is still terrorism. They promised to funnel their aid through the Palestinian Authority which, if done, might help dry up the outside money that fuels the militant groups.

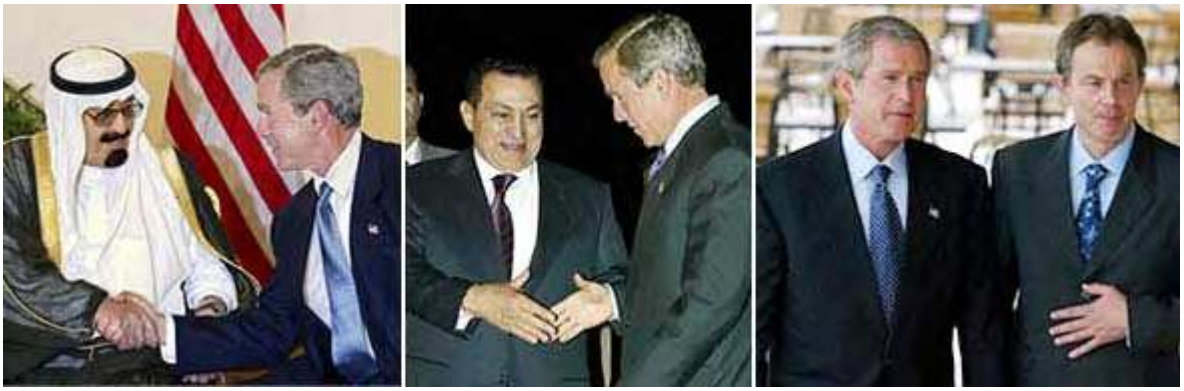
At the summit in Sharm el-Sheikh, the five Arab participants unambiguously endorsed the road map and Mr Bush's role. The “rejectionists” were marginalised—Syria was not invited—and the Arab regimes, in contrast to some previous peacemaking attempts, were properly involved. “A good beginning,” said Mr Bush, as he flew off to visit American troops in Qatar.

Naturally, that guarantees nothing about the future. During the first phase of the road map, the Israeli army is also supposed to withdraw from areas it has occupied since September 2000. Mr Sharon made no mention of that. The hardest issues of all—Jewish settlements, Palestinians' “right of return” and the status of Jerusalem—remain for the third phase. Meanwhile, the summit raised, but left unresolved, more immediate doubts.

Many Arabs still worry that the Americans will disengage when things go wrong

First, many Arabs still worry that the Americans will disengage when things go wrong, as things surely will. For the administration, this is a brief but passing period which is favourable to engagement, after the Iraq war and before the 2004 election campaign. But Mr Bush shows some signs of preparing to stick it out. The administration announced a new envoy to the region, John Wolf, a career diplomat who is associated with the neo-conservatives. He will head a team of Americans who will go to the region to monitor negotiations. Condoleezza Rice, the national security adviser, has been named as Mr Bush's “personal representative” on the topic, a clear sign of engagement by the White House.

AP,AFP,EPA



Great to see you, Prince Abdullah, President Mubarak, my good friend Tony...

Second, what are the roles of Mahmoud Abbas, the Palestinians' new prime minister, and Yasser Arafat, their president? Mr Arafat was not invited, though Arab regimes have previously said peace will not be possible without him. Since last June, Mr Bush has said the opposite: peace will be impossible with him. The summits advanced America's aim of building up support for Mr Abbas as an alternative. Arab leaders gave his Palestinian government a ringing endorsement, and Mr Abbas himself seems to have increased his prestige with Mr Bush. By the end of their first meeting, said one observer, “They were like pals from a long time ago.” But, as he also noted, Mr Abbas will need to show Palestinians proof that he can deliver benefits on the ground.

The hard road to trust

Politically, it is Mr Sharon who is in immediate trouble. According to Israeli defence sources, the government will start taking down some 15 “unauthorised outposts” next week. There are dozens more outposts, built since March 2001, dotting the West Bank, which must be removed in this first phase of the road map. But if 15 go it will be a significant start, certainly in terms of domestic politics.

There have been intelligence warnings of violent or even armed resistance from settler extremists. The defence sources said that the army would act fast and firmly to dismantle the outposts, and to make sure that the evicted settlers did not return to them or set up new ones. Leaders of the mainstream settler movement, while dissociating themselves from threats of violence against the soldiers, intend to organise

large-scale passive resistance against the dismantlement operation.

More than 40,000 people attended an anti-government rally organised by the settlers in Jerusalem, just hours after the summit ended. “We won't allow a single inhabited spot to be removed,” declared one speaker. “This road map goes straight to hell.”

“This road map goes straight to hell”

The looming clashes over the outposts could well grow into a terminal showdown between Mr Sharon and the two parties of the far right that sit in his cabinet. The National Union, with seven seats in the 120-seat Knesset, and the National Religious Party, with six, say they are staying in the government to keep the Labour Party out. But if Mr Sharon's words turn into deeds, they may have no choice but to leave. Labour promises Mr Sharon the support of its 19 Knesset members without necessarily joining the government—so long as he gets on with removing the outposts and freezing the rest of the settlements as required by the road map.

Mr Abbas faces a less immediate political embarrassment, but the challenge before him, if he is to translate his promise to end the armed *intifada* into reality, is enormous. He needs to achieve a ceasefire that includes the Islamic factions, Hamas and Islamic Jihad. He will be able to do so only if he can point to changes on the ground.

Sobered by the new American wind blowing right into their now closed offices in Damascus, the Islamists have been sounding conciliatory, vowing not to “embarrass” Mr Abbas in his endeavours for peace. But their terms for a truce remain as hard as ever, demanding reciprocity from Israel. They want a “guarantee” that Israel will withdraw from the Palestinian areas it has reoccupied, and end its policy of assassinating known Islamist fighters. They have ruled out disarmament. “We will continue to defend ourselves,” said one Hamas man. Many in Mr Abbas's own Fatah movement hold the same view.

At Aqaba, the Palestinians' new security chief, Muhammad Dahlan, urged Israel to release more prisoners beyond the 100 or so freed as goodwill gestures in recent weeks. There are 6,000 Palestinians in Israeli jails, many of them Fatah activists, including the movement's West Bank leader, Marwan Barghouti. Mr Dahlan believes the release of these prisoners would give him the legitimacy and the personnel to build an effective police force that might one day take on Hamas.

This is his and Mr Abbas's cautious game plan: first a ceasefire, next policing and then, and only then, disarmament. Time, and reciprocal action by the Israelis, will be required for all three phases. The Palestinians believe that Mr Bush, eager to see the new leadership strengthened, is sympathetic to this approach.

Monitoring both Israeli and Palestinian compliance with the road map, monitored by a team of American supervisors under Mr Wolf, will begin next week. The team, said Mr Bush pointedly, would be “stating clearly who is fulfilling their responsibilities”. The Israelis professed themselves pleased that only America, and not the other authors of the map—the UN, the EU and Russia—would be involved in this monitoring. The Palestinians were pleased that it would begin forthwith.

Israel was particularly gratified that Mr Bush had been persuaded at the last minute to add a reference in his Aqaba speech to Israel as “the Jewish state”. Silvan Shalom, Israel's foreign minister, said that this was meant as a negation of the “right of return” claimed by the Palestinian refugees. Israel initially had wanted Mr Abbas to make this point in his speech, but the Palestinians are not prepared to renounce the right of return at this early stage.

Europe's quicksands

In the glare of all this momentous activity, the earlier leg of Mr Bush's trip was almost forgotten by mid-week. But this, too, was a vital mission to repair damage and make peace. Europeans had long taken America's power and Europe's relative powerlessness for granted, until the build-up to the war in Iraq. At that point, France and Germany started talking about American power as something to be contained. Some Americans started dividing Europe into old and new, sceptics and allies. Mr Bush's trip attempted to reinstate the old close ties, but only on certain conditions.

“The United States is committed to a strong Atlantic alliance,” the president told a crowd in Cracow, in Poland. “This is no time to stir up divisions in a great alliance.” He went out of his way to claim that, in the Middle East and in developing countries generally, “ we need the help, the advice and the wisdom of

our European friends and allies.” This seemed good evidence—and the rash of joint policy agreements on trade and aid after the G8 summit at Evian-les-Bains produced more—that the administration is still committed to the transatlantic alliance as a whole, not just to a few select members of it.

In some areas, closer transatlantic co-operation is certainly on the cards. After the G8 summit, NATO's secretary-general, Lord Robertson, reiterated demands that the organisation do more to act as a peacekeeper outside its traditional area of operation. During the summit, America announced the extension of the so-called Global Partnership against nuclear proliferation. Set up at last year's summit, the project is concerned with such matters as destroying Russian chemical weapons. It has now been joined, for the first time, by a group of small European countries.

What is much less clear is whether the broader differences about the use of American power have been narrowed enough to improve ties across the board. Only strong assertions of mutual interest were likely to allay the deep distrust engendered by the Iraq war, and these were not forthcoming.

Mr Bush did not flinch from pointing out specific areas where the two sides disagree: on lending conditions for poor countries, for example, and on genetically modified food. Nor did he gloss over the ructions before the war. He told the Poles that “you have not come all this way only to be told [by France] that you must now choose between Europe and America.”

Backstage, the talk was blunter. Miss Rice talked of her disappointment at the questioning of America's motives in Iraq and of her “consternation” at French and German behaviour. “There were times,” she said, “that it appeared that American power was seen to be more dangerous than, perhaps, Saddam Hussein. I'll just put it very bluntly. We simply didn't understand it.” She added, at another point, “That disappointment will, of course, not go easily.”

Jacques Chirac, France's president, was no less clear where he stood. “I've no doubt whatsoever,” he said at Evian, “that the multipolar vision of the world that I have defended for some time is certainly supported by a majority of countries throughout the world.” He turned the G8 meeting of rich industrial nations into virtually a global summit, inviting 13 leaders from developing countries. And he summarily rejected an American suggestion that the G8's resolution on Iran and North Korea implied that force could be used against countries that breach international rules against proliferation. “This interpretation,” he said, “seems to be extraordinarily daring.”

The contrast with Vladimir Putin was instructive. Russia, too, has worried about America's projection of unilateral power and has praised attempts to constrain it internationally. But Mr Putin gave Mr Bush almost everything he wanted. Before their meeting, at the 300th anniversary celebrations in Mr Putin's home city of St Petersburg, Russia's parliament ratified the treaty that pledges to reduce the two sides' nuclear arsenals by two-thirds over ten years (the treaty was signed last year, but the parliament had refused to ratify it during the Iraq war). Mr Putin said that Russian and American policies on Iran—one of the most contentious issues between them over the past few years—were closer than anyone thought, and that Russia did not want Iran to get hold of nuclear weapons. Their meeting ended in a bear-hug.

The difference lies partly in European and Russian attitudes. Russia has decided that it needs to work with America on strategic and nuclear matters, while Europe is divided about how close it wants transatlantic ties to be. It also lies partly in American attitudes. As Mr Bush's trip confirmed, his administration will not let allied reluctance slow down something that it perceives to be in its national interest. And when Europeans are split, America is quite prepared to cherry-pick among them. No better evidence for this can be seen than a new anti-nuclear proliferation measure announced at the G8 summit. Incensed by its inability legally to confiscate a weapons shipment from North Korea to Yemen that was intercepted at sea earlier this year, America decided to set up a new interdiction regime to crack down on such trade. The first countries it went to for support were Spain, Poland, Britain and Australia, the ones that sent troops to Iraq.

That may be understandable. When a country thinks its national security is threatened, it will hardly let even allies dictate its response. Yet the Bush administration also shows signs of cherry-picking here, seeing as its particular allies Britain, Spain, Italy and the new democracies of central Europe. To paraphrase Lord Acton, America may be seeking to create a New Europe in order to redress the balance of the Old.

Reuters,AP

Vladimir, let's hug again! After you, Jacques, you French bastard. This one's Polish, right?

This will not happen without a fight. The leaders of France and Germany frequently (though mistakenly) like to assert that nothing much happens in the EU unless they agree. Moreover, they do not seem seriously abashed by the outcome of the war in Iraq. True, both voted for the United Nations resolution to lift sanctions. But French officials do not think America has been vindicated by victory. On the contrary, they argue that military action has reaped a harvest of chaos in Iraq and more terrorism by al-Qaeda. If anything, they feel their opposition has been vindicated by the failure to find Mr Hussein's weapons of mass destruction.

In short, American diplomacy, like Mr Bush's foreign travels, seems to come in two parts. In the Middle East, America showed that it is willing to use its power in ways that are neither arrogant nor selfish. But whether that will be enough to reassure European critics is another matter.

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Housing in New York City

The great Manhattan rip-off

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From The Economist print edition

Alamy

Rent controls, New York's particular bane, are poised to receive yet another unwelcome extension

IT WAS one of many price controls brought in during the grim, panicky period between the attack on Pearl Harbour in 1941 and America's move to a full wartime economy in 1943. The housing market was seen as another thing that needed to be rationed or, at least, regulated—alongside rubber, petrol, coffee and shoes. By 1947 all these controls were phased out, except property-price regulations. Most cities have since scrapped these market distortions; the capital of capitalism has not.

Only one-third of New York City's 2m rental apartments are free of some kind of price restraint. A city board sets annual increases and administers an ever more complicated system. In some buildings, people live in similar apartments but pay wildly different levels of rent. In others, lone grandmothers sit in huge apartments, aware that moving would mean paying more for a smaller place elsewhere.

The oldest controls cover pre-1947 buildings (including any number of lovely houses on the city's most fashionable streets): these have average rents of $500 a month. A second tier, covered by rent stabilisation, rent for $760. Unregulated apartments cost an average of $850, but this number is deceptive, since it includes the worst buildings in the outer boroughs.

Technically, new construction is free from these constraints. In fact, a complex system of tax inducements persuades most clever builders “voluntarily” to agree to rent-stabilisation restraints. Not surprisingly under these conditions, building is anaemic; even with the largest surge in construction since the 1960s, the number of building permits issued in the past year will add less than 1% to New York's housing supply. Needless to say, in such a sclerotic system, the poor suffer most.

On June 15th, 60 years after this “temporary” measure was introduced in New York City, rent control once again comes up for renewal by the state government in Albany. It will almost certainly pass. Back in 1997, the then free-market-friendly Republican state Senate and the then free-market-friendly state governor, George Pataki, tried to get rid of rent restraints, but ran into fierce resistance from the Democrat-controlled assembly. “What exactly is ‘homeland security' if your homes are not secure?” cried Sheldon Silver, the Assembly speaker, at a recent rally.

A compromise “reform”, won in 1997 against the odds, removed only 23,000 renters from a pool of

almost 1m. The wretched 23,000, cruelly deprived of price controls, qualified for this punishment either by having income of more than $175,000 for two consecutive years and living in apartments whose rent was above $2,000 a month, or by moving into empty apartments costing more than $2,000 a month.

Buried in the 1997 agreement, however, was a detail that moved the next re-approval date to a time when no elections were due. If any time was right for debating the issue on economic rather than emotional grounds, it should be now.

In the intervening years, however, New York's politics have changed. A grinding recession and the sharp drop on Wall Street seem to have blunted state politicians' enthusiasm for market forces. The same governor and state Senate that fought for the cause in 1997 have lost their nerve. At best, they will keep the reforms won six years ago. Truly opening up New York's housing market is no longer on the table.

This is odd, because there is growing evidence that the transition from a strictly regulated to an unregulated market is less painful than people like Mr Silver make out. The most striking example has been in Cambridge, Massachusetts, where tight restrictions were lifted in 1994 after 23 years. A study by Henry Pollakowski, an economist at the MIT Centre for Real Estate, shows no dire consequences. Instead there has been a huge surge in housing investment, even allowing for the 1990s housing boom.

It is hard to find any economist who supports rent restraints. Price controls, even if laboriously tweaked, inevitably produce inefficiencies, reduce supply and cause bad side-effects. Black markets and bribery thrive. Building maintenance is often ignored. Landlords and tenants find themselves in poisonous relationships, since they are linked by law rather than by voluntarily renewable contracts. Unscrupulous property owners go to dangerous lengths to evict tenants in order to get higher-paying replacements; as a result, tenant-protection laws have been enacted that make it almost impossible to evict even a scoundrel.

Meanwhile, a vast bureaucracy has grown up to administer the price controls, supported by volunteers and litigators. The property owner who misses a filing deadline, or has his paperwork mislaid, can be blocked from even permissible rent increases. Given all this, most sane New Yorkers would rather eat their money than join the rentier class.

Oddly enough, for those landlords adept at navigating the system, returns are likely to be unaffected by price caps, as long as properties were acquired after they had been imposed and the potential for income is understood. Indeed, although the press depicts the fight over price restraints as tenants versus landlords, it is more accurate to see it as tenants paying a below-market rent versus tenants who, in effect, pay the cost of this subsidy, says Peter Salins, the provost of the State University of New York and co-author of a book on New York's housing market (“Scarcity by Design”, Harvard University Press, 1992).

Who, then, are the lucky tenants? According to another study by Mr Pollakowski, most benefits go to tenants in lower and mid-Manhattan, where the residents are relatively wealthy. The city's poorer folk, most of whom live in the outer boroughs, receive little or nothing. Perhaps the strongest argument offered by supporters of rent control is that it promotes stability; but, typically, long-term tenants in unregulated markets receive similar concessions, since it is in a property-owner's interest to retain dependable renters in his buildings.

Mr Salins says the members of the state legislature are well aware of all the basic arguments about the evil effects of price controls on the property market. They believe even more strongly, however, that voters do not like getting socked with rent increases. For New York's politicians, it is a time of small thoughts.

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The Atlanta bomber

Out of the woods

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The probable culprit is caught at last

AP

In Appalachia, they helped him

IN PICTURES taken after his capture on May 31st, Eric Rudolph looked quite ordinary: only the hard eyes hinted at his prominent place on the FBI's Ten Most Wanted list. Since 1998 he had been wanted for four bombings over a two-year span: at two abortion clinics, one in Birmingham, Alabama, and one in northern Atlanta; at a gay nightclub in Atlanta; and, most famously, in Atlanta's Centennial Olympic Park in the midst of the 1996 games. Many had given him up for dead when, suddenly, he was caught—rummaging through a rubbish bin in tiny Murphy, North Carolina, at 4.30am, by an off-duty patrol officer who thought he was interrupting a burglary.

The crimes were sensational enough; the Olympic bomb alone killed two (one indirectly, of a heart attack) and injured more than 100. But even more spectacular was Mr Rudolph's disappearance. He spent five years hiding in western North Carolina, mostly in the densely wooded areas of Nantahala National Forest. The FBI (having at first suspected an innocent security guard who discovered the Olympic bomb) offered a $1m reward for Mr Rudolph's capture, and sent hundreds of agents on a manhunt before declaring the case cold. Mr Rudolph may have been within 20 miles of Murphy the whole time; he may occasionally have travelled up and down the Appalachian Trail, unremarked by passing hikers. Some local residents were said to be sympathetic to his rebellion, posting “Rudolph Eats Here” on restaurant signs and possibly passing him food and supplies. When he was arrested, he sported a neatly trimmed moustache and new running shoes.

Mr Rudolph could face trial as early as late summer, and not in friendly rural Appalachia. Federal prosecutors in Birmingham will try him first for the 1998 bombing that killed a security guard and permanently maimed a nurse. The case there is stronger, since both Mr Rudolph and his truck were spotted beforehand outside the clinic. John Ashcroft, the attorney-general, has said that after a “relatively short and straightforward” trial in Birmingham, Mr Rudolph will face charges for the three Atlanta bombings. Forensic evidence, and a letter sent afterwards by the “Army of God”, link all the explosions. But if Mr Rudolph gets the death penalty in the first trial, the government may decide that enough justice has been done.

When he went on the lam, Mr Rudolph was the latest in a series of right-wing bombers: less deadly than Timothy McVeigh, the ex-soldier convicted of the 1995 Oklahoma City bombing, or Theodore Kaczynski, the “Unabomber”, who mailed bombs and anti-technology rants from a remote Montana cabin, but just as crazy. The anonymous Army of God letter vowed war on abortion clinics, “sodomites” and “the ungodly Communist regime in New York”. Mr Rudolph had spent time as a child with the Christian Identity movement, which preaches, among other things, that whites are God's chosen people, picked to do battle in a racial Armageddon. Such groups have since become less influential: the Southern Poverty Law Centre, which watches them, says the number of active anti-government militias has fallen from more than 800 in the mid-1990s to 158 in 2001.

The danger remains that Mr Rudolph will become a sort of folk anti-hero, his trial scrutinised for signs of a continuing government conspiracy—especially if the FBI handles his proceedings as shoddily as it did McVeigh's, releasing 4,400 pages of evidence only on the eve of his execution. But Mr Rudolph's trial should be less of a politically charged circus; right-wing militias are no longer the country's most pressing terrorist threat.

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Anti-Americanism

The world out there

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Distinctly unfriendly, and even more so than before

AS GEORGE BUSH laboured this week on his international fence-mending, a worrying indication of the size of the task came out of Washington. According to a poll released by the Pew Global Attitudes project on June 3rd, foreign approval of America has plummeted since the war in Iraq, particularly in the Muslim world. There, the survey suggests, “The bottom has fallen out of support for America.”

Conducted during May, the poll covered 16,000 people in 20 countries plus the Palestinian Authority. Eight of those countries were Muslim. Hardly surprising, therefore, that the news was not good. But it has been greeted with predictable expressions of despair.

In Indonesia, for instance, only 15% of respondents had a favourable opinion of America: a dramatic reversal from a year ago, when more than 60% viewed America positively. In Turkey, the proportion of people who liked America fell by half from 30% last year (and over 50% in 1999-2000) to 15%. A mere 1% of Jordanians and of those in the Palestinian Authority have a positive view of Uncle Sam. Kuwait was the only one of eight Muslim countries surveyed where a majority of people (63%) were in favour of America.

Instead, many Muslim publics feel threatened by the United States. Fewer than a quarter of Indonesians, Turks, Pakistanis and Jordanians, and a tenth of Moroccans, support the war on terror. (The survey was completed before the May 16th terrorist attack in Casablanca.) By contrast, in seven of the Muslim countries surveyed, a majority of the population imagined that America might become a military threat to their country. Morocco was the only exception.

More worrying, majorities in the Palestinian Authority, Indonesia and Jordan—and nearly half of those in Morocco and Pakistan—say they have at least some confidence in Osama bin Laden to “do the right thing regarding world affairs”. By contrast, only 1% of Jordanians and Palestinians, 5% of Pakistanis and 8% of Indonesians and Turks trusted that Mr Bush would do the right thing.

But despite scepticism of America, there is considerable support in the Muslim world for the ideals that America represents—democracy and free-market capitalism. Large majorities in most Muslim populations, except Indonesia and Turkey, reckon that western-style democracy can work in their countries.

Outside the Muslim world, attitudes to America are more mixed. Apart from Kuwait, six other countries surveyed had a majority of people with a favourable image of the United States: Israel (79%), Britain (70%), Canada (63%), Nigeria (61%), Italy (60%) and Australia (60%). Elsewhere in Europe, scepticism remains strong. Only 45% of Germans, 43% of French, 38% of Spanish and 36% of Russians have a favourable view of America. (The antipathy is mutual: according to the Pew survey, fewer than three out of ten Americans care for France). Foreigners' dislike of America has mostly to do with its politics and politicians (nearly 75% of the French and Germans who disapprove of America base their dislike on Mr Bush personally). A mere 8% of Russians trust the president's foreign-policy instincts.

Given these views, it is hardly surprising that many Europeans—more than 70% of French respondents and almost 60% of German—want looser ties with America. Even in Britain and America, public attitudes are mixed towards a close alliance. Some 45% of Brits and 39% of Americans think a more independent relationship would be better. Closeness, after all, has proved pretty uncomfortable of late.

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Oregon

A state going hungry

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And, despite ever-expanding waistlines, it is not alone

AP

When logging collapses, they turn to the food banks

JUDY ALLEY, the executive director of a food bank in a suburb east of Portland, Oregon, notices the children in particular. The parents tend to be quiet, embarrassed by their need to claim the boxes of free food which, with luck, will last them three to five days. But the youngsters are eager, darting from item to item. “They reach for anything they can get their hands on,” says Mrs Alley.

These days, she says, such scenes are more commonplace. Anywhere from 5-7% of Oregon's 3,500,000 residents live in households where food is inadequate for at least part of most months, compared with figures of 3-4% nationwide. Requests for supplies from the food bank Mrs Alley manages, which serves about 3,000 families, are running 40% higher than only a year ago. Across Oregon, bank managers say, requests at food banks are increasing at an annual rate of 10-20%. Oregon, in fact, has for four years claimed the dubious honour of “hungriest” state in the nation: ahead even of Mississippi and Louisiana, which report poverty rates (defined as an income of $18,100 for a family of four) that are half again as high.

How come? Oregon is relatively affluent, with a comfortably middling median income. No more than the average number of households are headed by single parents, usually a strong indicator of poverty. And although its unemployment rate is now the highest in the country, at about 8%, the state also enjoyed rapid economic expansion during the 1990s.

Those figures disguise hard realities, says Michael Leachman, a sociologist who has studied hunger in Oregon. For one thing, he says, Oregon has one of America's fastest-growing gaps between its poorest and wealthiest residents. While prosperous Portland is the centre of a high-tech boom, that boom has bypassed poorer rural communities reeling from downturns in logging and agriculture. Oregon's housing costs have also risen rapidly, and today about one-fifth of the state's renters pay landlords more than half their income. The state government is strapped for cash, forcing cutbacks in medical assistance and other services. And Oregon has a weak social structure, with many recent immigrants who lack the family and community ties to weather hard times.

To an extent, Oregon reflects the realities of a nation where the economy has not performed well for nearly four years. Nationally, June 5th was declared “National Hunger Awareness Day” by Second Harvest, a national network of private food-relief agencies. Growing hunger is reported by nearly all

states, and about 10% of all households are classified as “food-insecure,” meaning they are apt to have an uncertain food supply at least once a year (a smaller portion face real hunger on a regular basis). In Dayton, Ohio, for instance, the loss of telecoms and government jobs has translated into a 29% jump in food requests at the MidOhio Food Bank, which serves 20 counties. Hungry Americans must often choose between purchasing medicine, paying rent, or eating.

In Oregon, the dubious top hunger ranking has led to a flurry of do-gooding. Ted Kulongoski, the Democratic governor, declared a Hunger Awareness Week in late April. His face adorns posters plastered on the walls of state offices, encouraging employees to donate food. And “food drives” are a regular part of community life. All this is worthy, but also rather odd. In neighbouring Washington state, with demographics nearly identical to Oregon's and a ranking of second on the hungry-states list, hunger is hardly mentioned as a widespread problem. There are food banks and hungry people, but compared with Oregon's they are invisible.

What is also odd is that Oregon's hunger statistics may not be what they seem. In 2000, for instance, a state agency called the Oregon Progress Board did its own survey on hunger. It found that only about 2.9% of state households faced hunger in any year, half the figure culled from United States Department of Agriculture surveys. But the lower figure was discounted. Food-bank managers say the federal surveys were more accurate; but John Charles, a policy analyst at a conservative Oregon think-tank, thinks that political pressure from “hunger-advocacy” groups had an effect.

If hunger is a real problem, it certainly needs defining. Some studies measure it as the inability to buy anything but cheap food, or mere uncertainty about where the next meal is coming from. Food banks, too, may create a need as much as fill one—after all, most did not exist before the 1980s, and their growth may be driven as much by supply as demand. That hunger should be an issue at all in the waddling, all-you-can-eat United States strikes even hunger-watchers as ironic. Hunger certainly exists, but its true prevalence, in Oregon and elsewhere, remains an open question.

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Detroit's mayor

A party too far?

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Allegations rumble round a towering political star

AP

Rapping Kilpatrick

MICHIGAN wants to be cool; Jennifer Granholm says so. Before you laugh, remember that Motown once dished up the hippest tunes on the planet. But then cool went into eclipse in this state (think Gerald Ford), until 2002, when a couple of young Democrats started turning heads. One was Ms Granholm herself, a clever blonde who became the state's governor; the other was Detroit's new mayor, who took office early that year.

Kwame Kilpatrick is a towering black man who wears an earring and occasionally rides a Harley-Davidson. He has been called the “hip-hop mayor” by a rap artist. A leader of the Democrats in the state Assembly at 30, he is loved by both the Democratic Leadership Council and Blackvoices.com, which calls him one of “America's new kings”.

In recent weeks, though, Mr Kilpatrick's image has taken a beating. The allegations include a wild party at the mayor's mansion last autumn, complete with nude dancers; an alleged assault at the residence; and antics by his private security detail, including possible payroll fraud, drunk driving and cover-ups of accidents with city cars. Much of the trouble involves Mr Kilpatrick's squad of bodyguards, which is run by a man called Lorenzo Jones, a pal of the mayor's from high school who used to be a lowly street cop prone to bursts of violence. Now several former bodyguards have come forward to claim that Mr Jones runs the unit as his personal fief. One Detroit police officer has said that he received a death threat from one of the bodyguards after telling his superiors about illegal activities.

The state attorney-general and state police have launched a joint investigation—the attorney-general jumping on board after allegations, which most think ridiculous, that the commander of the state police was at the mayor's supposedly frisky bash. Mr Kilpatrick's reaction has been defiance: he has denied the party ever took place, fired the deputy police chief for investigating the charges and made cracks about disposing of some journalists.

It is too early to know if this is a case of wrongdoing by the mayor, misplaced trust in his bodyguards, or something else. But Mr Kilpatrick's handling of the allegations so far seems to show both poor judgment and inexperience. The episode may have squelched hopes that he will follow his mother, Carolyn Cheeks Kilpatrick, into Congress one day.

Sadly for Detroit, the scandal comes as the city is working hard to shed its image as crime-ridden, run-down and corrupt. The tide had seemed to be turning. Two big new stadiums have opened downtown in recent years, including Ford Field, which helped the city win its bid to host the Super Bowl in 2006. Three casinos have added to the choice of good clean fun. Meanwhile, some 4,000 high-tech workers are moving into a new $350m headquarters built by Compuware, a software company. Although much of the credit for all this goes to Mr Kilpatrick's predecessor, Dennis Archer, the current mayor has kept things rolling by luring retailers such as Borders bookstore and the Hard Rock Café to the Compuware complex, and by seeing through plans for a large downtown park with performance space.

Mr Kilpatrick has also helped boost the inner-city housing market. Although Detroit's population is mostly black, a growing number of young whites and Latinos are moving in and renovating dilapidated brownstones they can snap up at bargain prices. That is exactly the kind of shift Ms Granholm is after; she has noted that Michigan had a poor record of keeping its young people during the 1990s.

But much remains to be done in Detroit, which has lost half its population since the 1950s. Most white residents long ago fled to the suburbs, leaving the city overwhelmingly black. Public services and schools are in bad shape. Crime remains high; although the crime rate has allegedly fallen for several years in a row, the accuracy of the city's figures has been questioned. The illiteracy rate has surged and drug abuse among teenagers is high.

Although some businesses have been lured into the city, most remain wary. Since the Kilpatrick scandal broke, political observers note a frostiness towards the mayor from the regional chamber of commerce, which is dominated by white men who live in the suburbs.

Yet, as Ms Granholm rightly points out, the whole state has a stake in Detroit's success. The city and its immediate suburbs are home to America's three largest carmakers, numerous suppliers to them, and big financial institutions. This is a hard reality for many of Michigan's more conservative residents to swallow.

The political ascent of Mr Kilpatrick, who is still only 32, gave hope that his charisma might bridge the gap between those two worlds. As leader of the minority party in the state legislature, he proved he could work with the uncoolest of them all. He has also fired the imagination of young urban blacks who saw him as a role-model. For all these reasons, the fate of Mr Kilpatrick matters, not only to Detroit, but to Michigan and beyond.

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Lexington

The Hillary factor

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Forget about those memoirs. It's her future that's interesting

Get article background

IS THERE anything one less wants to revisit than the Clinton wars? Last month, Sidney Blumenthal, a journalist turned Clinton brown-noser, published an 800-page tome on the subject that is as tediously one-sided as anything the old rogue's conservative critics have ever put out (which is saying something). Now the wronged woman herself is unveiling her memoirs, which include the staggering revelations that she wanted to wring her husband's neck when he told her about his “inappropriate intimacy” and that only Buddy would “keep Bill company”. But who in their right mind wants to be dragged back to Whitewater, the pouting intern or any of the other features of Clintonia, that bitchy, chaotic house party where American politics summered in the 1990s? Since September 11th, the United States has had more important things to think about.

Nevertheless, Mrs Clinton's book is worth noting—not because of what it tells us (or, more likely, fails to tell us) about Mrs Clinton's past but because of what it says about her future. The book will serve as a reminder that the junior senator for New York remains an incredibly potent force in American politics—a heroine for many women and liberals, a hate-figure for conservatives and the most likely next Democratic president.

That last point might seem a little far-fetched. Mrs Clinton is conspicuously absent from the current crop of presidential candidates. Yet her very absence has confirmed her star power. She has barely raised a finger, yet she leads the Democratic field in every poll in which her name is mentioned. Were she to run, she would surely knock John Kerry and the other Democratic challengers into a cocked hat. Some Democrats are already plotting a “Draft Hillary” campaign, but Mrs Clinton is clever enough to realise that, with Comedy Central's “The Daily Show” calling its coverage of the Democratic primaries “The Race from the White House”, the Democratic candidacy in 2004 is probably a passport to the political boneyard.

Republicans chuckle at Mrs Clinton's delaying. Their official line is that they would dearly welcome a contest with such a left-wing polariser at any time. She would galvanise the Republican base, alienate the moderate middle and reduce the Democrats to a coastal rump. George McGovern in a dress, they huff.

Yet if you probe the conservative arguments just a little, you discover a certain nervousness. After all, it is hard to be a much more polar figure in politics than George Bush, who has done pretty well by fighting hard for his own team. Indeed, one of the most striking things about Mrs Clinton is how similar she is to her fellow Yale alumnus.

She has Mr Bush's capacity to elicit frenzied support from her core constituency—support that translates easily into piles of money and armies of volunteers. Just as important, she shares Mr Bush's ability to destabilise her enemies. One reason why liberals can't lay a finger on Mr Bush is that they are just too damn angry to punch straight: read, say, Paul Krugman's columns in the *New York Times* and you are often left worrying less about the commander-in-chief than about the columnist-in-a-tizz. Mrs Clinton has the same effect on the *Wall Street Journal*.

Next, Mrs Clinton is no more a prisoner of her base than Mr Bush. The good thing about trust in politics is that you can abuse it. Conservatives have given Mr Bush more rope than his father because they think he is one of them. As governor of Texas, he used this rope to co-operate with Democrats and sideline some of the wackier state Republicans. Running for president, he softened the party line on education and fudged it on abortion.

Mrs Clinton's credibility with the left has also allowed her to move further to the centre. She has dropped her pro-Palestinian stance, spoken out in favour of tough welfare policies and decked herself in hawk's plumage. When Donald Rumsfeld testified behind closed doors before the Senate Armed Services Committee during the darkest moment in the Iraq war, he supposedly got some of his strongest support from the former first lady. Unlike, say, Howard Dean, she does not have to buy the left's support by pandering to its silliest prejudices.

The iron fist inside a Bergdorf glove

All this points to the third big similarity between Mrs Clinton and Mr Bush: self-discipline. As even Bill Clinton might admit (though Mr Blumenthal would not), he too often squandered his considerable skills on indulgences of one sort and another. There has been a palpable change in the White House's productivity: nobody was better at analysing a problem late into the night than Mr Clinton; but Mr Bush actually gets things done. And Mrs Clinton would too.

Mrs Clinton's Senate campaign in 2000 was impressively tank-like. She has managed her Senate career meticulously, broadening her experience by joining the Armed Services Committee rather than sticking to “women's issues” such as health and welfare. She has also emphasised her constituency work, concentrating at first on state and local issues, most notably bringing federal aid to New York City after September 11th. Only now is she raising her national profile again.

Is the prospect of another President Clinton just a flight of fancy? Not to many Democratic givers, who cannot wait for the 2004 election to be out of the way. Not to the Democratic faithful, who fill the air with electricity whenever Mrs Clinton appears. Mrs Clinton is a successful senator from a large and rich state. She has the sort of name recognition that money can't buy. She has the support of many women who think the majority sex deserves a go at running the country. And she embodies the Democratic America that won the popular vote in 2000. One disciplined partisan is marching a divided country in a firmly conservative direction. It is a good bet that, come the 2008 campaign, another will march it back to the left again.

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Colombia's conflicts

Superman Uribe holds back the tide

Jun 5th 2003 | BOGOTÁ
From The Economist print edition

AFP

A determined and popular president has started to make a difference. But for how long can government be a one-man show?

Get article background

ALVARO URIBE, Colombia's president, says with glee that his idea of Friday-night relaxation is to stay at his desk until 2.00am, ringing police and army commanders across the country to quiz them about security in their areas. Most Saturdays, the president flies to a provincial town and holds a “community council”, a town meeting lasting 12 hours or more at which locals can interrogate officials about everything from sewers to policing.

It is no wonder that after ten months in office in Latin America's most conflict-ridden country, Mr Uribe, an intense former lawyer, looks exhausted. But Colombians seem impressed—especially since Andrés Pastrana, his predecessor, was not exactly a stakhanovite. “I haven't promised miracles. But I have said to my fellow citizens [that] you will have my permanent effort, day and night,” says Mr Uribe.

That effort is starting to pay off. Colombians elected Mr Uribe last year because he promised to restore order to a democracy foundering under the violence of two guerrilla armies and another one of rightist vigilantes, all of them financed by drugs, kidnapping and/or extortion. Apart from its human toll, insecurity had begun to undermine Colombia's economy, too. When Mr Pastrana's lengthy effort to negotiate peace with the FARC, the largest guerrilla army, collapsed last year, many Colombians saw in Mr Uribe a last chance.

Now there are incipient signs that decline has halted. Mr Uribe has begun to expand the security forces, unleashed a massive assault on the drug trade and pushed through economic reforms. Not everything is going well. But the president remains extraordinarily popular. When last month the FARC killed 9 hostages, including two politicians, during a bungled rescue bid by the army, Mr Uribe took responsibility for the debacle: his popularity promptly climbed from 60% to over 70%.

The government's priority is improving security. With American military aid, Mr Pastrana had begun to make Colombia's army more professional, setting up a helicopter-borne rapid-reaction force. Mr Uribe aims to go further: he wants to impose the state's control over those (mainly rural) areas, amounting to

half of a vast country, where it has been lacking, while trying to increase the pressure on the rebels, partly through improved intelligence.

Peasant soldiers

To do this, Mr Uribe plans to raise defence spending (including police and pensions) from 3.5% of GDP to 5.8% by the end of his term in 2006. Using emergency powers, he has levied a one-off war tax on companies and the rich. So far, the government has trained 10,000 extra police, and raised a new force of 16,000 part-time “peasant soldiers”. Their task: to establish garrisons in 192 rural towns which lacked police, something officials say will be achieved by the end of this year. By then, too, a new American-trained army battalion will start guarding Colombia's main oil pipeline against sabotage. Two new mountain battalions have been deployed to deny the FARC the freedom of the high Andean cordilleras; another two will follow.

The government is trying to improve its intelligence. After the collapse of the peace talks, the United States changed its policy, allowing its aid to be used against guerrillas instead of just against drugs. So it is passing on more information to the Colombians; an extra $105m in aid, tacked on to a bill paying for the Iraq war, will be partly spent on additional spy planes. On the ground, all citizens are being encouraged to become informers.

Mr Uribe claims results already. He says that between January and April, killings were down by 21% and kidnappings by 32% on the same period last year; in Medellín, where the army took control of a slum area, killings fell by 32%. More than 1,500 rebels have deserted. And the rightist paramilitaries have been less active; some have begun peace talks.

Yet caution is in order. After a decade of steady expansion, the FARC does seem to have suffered a strategic setback. It has gone back to hit and run attacks by small groups. It has also staged terrorist bombings in the cities, though its urban network looks weak. But the improvement in security is so far largely one of perception. A campaign to encourage Colombians to use main roads at holiday weekends, under army escort, has been a particular success: road traffic is up by 65%, says Mr Uribe. Yet the FARC looks little damaged: the army has failed to capture any of its top leaders. “The guerrillas have fallen back, and are waiting to evaluate the weak points in the government's strategy,” says Alfredo Rangel, a security analyst.

In other words, Mr Uribe's effort will fail unless it is refined and sustained. There are two main criticisms. One comes from human-rights groups. They say that the government has targeted civilians in guerrilla areas, with mass arrests. And they worry that it is weakening independent oversight of the security forces. An anti-terrorist bill in Congress would give the police and the army judicial powers of search and arrest. But they would have to inform the prosecutor's office of arrests. The government needs “permanent legal tools against terrorism” but “we won't limit basic freedoms”, Mr Uribe claims.

What about the civilians?

The second, related, criticism is that the government has yet to work out an effective strategy for rebel-held areas. Under emergency powers, which have since lapsed, Mr Uribe decreed two particularly war-torn areas to be “rehabilitation and consolidation zones”. But this achieved little. There is “no effort to win over the civilian population” in these areas, says Antonio Navarro Wolff, an independent senator. He also notes that the FARC has begun proselytising in universities.

Perhaps the most dramatic action has been against drugs. The United States has finally completed delivery of a large fleet of 21 crop-dusting aircraft to spray coca fields with weedkiller. Mr Uribe is using them with gusto. His government has increased the weedkiller's strength, and let small plots as well as large plantations be sprayed. By December, the UN reported a big fall in coca cultivation, to 102,000 hectares (252,000 acres), a 30% fall in a year. Since then, the government has been wiping out 15,000 hectares a month. By next year, Colombia will not be a significant exporter of drugs, claims Fernando Londoño, the justice and interior minister.

Many are sceptical of that claim. “The minister is very optimistic,” admits Mr Uribe. Again, perseverance will be crucial. “We might knock it all out by the end of the year,” says Anne Patterson, the American ambassador in Bogotá. “The challenge is to keep it down, in terms of commitment and resources.”

One problem is what happens to the 600,000 or so people employed by the drug trade. Mr Uribe inherited an economy that has grown only at a sickly pace since a deep recession in 1999. The public debt was spiralling out of control. As well as tax rises, his government pushed through pension and labour reforms, and has cut spending. It has won extra money from the IMF and multilateral development banks. It is now on track to meet the target for this year's fiscal deficit of 2.5% of GDP. Growth has picked up, too: in the first quarter, GDP expanded by 3.8% compared with the same period last year. But sustaining this requires new investment, and for that “security is the key”, says Sergio Clavijo, a central-bank director.

Mr Uribe has made least progress in his pledge to reform politics. A referendum on constitutional reforms, which may be held in July, has turned into a patchwork quilt, including some fiscal measures. “It is not a panacea, but it is a step in the right direction,” Mr Uribe concedes. Meanwhile, Congress is promoting a political reform which scarcely deserves the name. Some analysts reckon that the failings in this area are down to the arrogance of Mr Londoño.

But the government faces a bigger problem: Mr Uribe runs everything himself. Even his ministers are said to be in awe of him; he undermines them by dealing directly with their subordinates. “No Colombian president in living memory has had such omnipresence,” says Fernando Cepeda, a political scientist at Bogotá's Andes University. “He has restored presidential authority, but will he restore the authority of the authorities, of ministers, governors and mayors?” That is the challenge for the next three years.

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Peru's state of emergency

Toledo in trouble

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A president out of his depth

FOR most of his two years as Peru's president, Alejandro Toledo has seemed chronically indecisive. But faced with a wave of strikes and protests, some of them violent, he has undergone a disconcertingly sudden transformation. On May 27th, he abruptly imposed a state of emergency on almost half of Peru, and sent the army out to impose order on the streets. That brought the briefest of respites. But protests resumed this week. Mr Toledo's ability to govern Peru democratically has begun to be called into question.

AP

Repeat after me, "Stuff Toledo's emergency—we want more money"

The president is struggling in spite of—or perhaps partly because of—a vigorous economy, which grew last year by 5.2%. After four sluggish years, the benefit of growth has yet to trickle down to Peruvians, half of whom are poor. Instead, it has prompted a wave of popular discontent. Mr Toledo was elected in 2001 because many Peruvians admired his stand against the increasingly authoritarian rule of Alberto Fujimori. But he has proved an inept negotiator.

His first mistake was to award himself a huge wage increase, to $18,000 a month (later cut to $12,000). Congress quickly followed suit. That undermined calls for austerity to tackle a budget deficit, still close to 2% of GDP. His second mistake was to make rash promises, few of which he has fulfilled.

His present troubles began a month ago when truck owners blocked main roads, threatening food supplies. The government caved in to their demands for higher freight tariffs. On May 12th, 300,000 teachers began an indefinite strike, seeking a rise of $60 in their average monthly wage of $200. Health workers and court clerks began their own strikes. Amid rumours of an imminent police strike, farmers aggrieved at taxes and planned water charges blocked the main coastal highway. As buses and trucks were trapped, bands of robbers fleeced their occupants.

The army quickly cleared the roadblocks, and several unions (but not the teachers) went back to work. But order was restored at a cost. In Puno, in southern Peru, a small group of soldiers, cornered by stone-throwing students, fired on the crowd, killing one person. In all, at least 50 were wounded in clashes.

Mr Toledo's heavy-handed action seemed to turn what had been isolated protests into far broader public rejection of the government. Parents' associations which had been calling for an end to the teachers'

strike did an about-turn. They marched alongside the strikers in peaceful demonstrations this week held in defiance of the state of emergency, to call for its end.

The president has won support from businessmen. However unfairly, his crackdown has prompted comparisons with Mr Fujimori, who in 1992 used the army to shut down Congress. Mr Toledo is a convinced democrat. But he lacks a solid political party, and he has become an increasingly lonely figure; only 15% of Peruvians approve of him. Even the army, which is smarting over a purge of many generals for corruption, disliked being called out to do the police's job.

But Mr Toledo does have one trump card. Almost nobody—except Mr Fujimori's cronies— wants to see him overthrown. Ministers see conspiracies everywhere: those blamed include not just Mr Fujimori but the disorganised extreme left, former members of the Shining Path terrorist group, and APRA, the main opposition party. Each may be doing their best to stir the protests, but none has the strength to orchestrate them.

A settlement of the teachers' strike may be close, though it is unlikely to be a good one for the government. If the protests die down, Mr Toledo may yet have won himself a breathing space. His next task is to change his cabinet. He has dropped many of the independent technocrats he began governing with; several of their replacements were incompetent cronies and party hacks. Some of the technocrats may now be recalled. If he is to serve out the rest of his term in tranquility, he needs not just to put together a more effective team, but to convince ordinary Peruvians that his government, and democracy itself, have something to offer them.

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Canada's political leaders

Happy families

Jun 5th 2003 | TORONTO
From The Economist print edition

Canadian politics is becoming a dynastic affair

RUNNING a Canadian province has occasionally been a family business, to be passed on from father to son. But in federal politics, Canada has had no equivalent of America's Kennedys or its Bushes. Now, suddenly, dynastic politics seems to be taking root north of the border. By the end of this year, barring an unlikely upset, the three oldest federal parties in Canada will all have chosen as their leaders men whose fathers were cabinet ministers.

In January the leftish New Democratic Party (NDP) picked Jack Layton as the man to shore up its sagging fortunes. A Toronto city councillor, Mr Layton was a neophyte in federal politics. He was also the son of a minister in the Conservative government of Brian Mulroney in the 1980s. While his lineage might make him suspect to some NDP diehards, it may have helped him with the public. He has pushed up the party's showing in the opinion polls.

Last weekend it was the turn of the Conservatives to choose a new leader. They opted for Peter MacKay, the son of another member of Mr Mulroney's government. The Tories have sunk even lower than the NDP. Can Mr MacKay revive them? He has good looks, affability and an endearing tendency not to take himself too seriously. And he has a winsome girlfriend whose father was...yes, yet another of Mr Mulroney's ministers.

But Mr MacKay's victory owed more to Dallas than to Dynasty. Facing a fourth ballot at an unexpectedly dramatic and deadlocked convention, Mr MacKay won by promising to “review” the costs and benefits of Canada's free-trade agreement with the United States. A small but well-organised group of Conservatives sees free trade as fatal to Canada's independence. But most of the Tory party—including the new leader himself—see the agreement as Mr Mulroney's crowning accomplishment. So Mr MacKay has hurt his own prospects.

That prompted relief and gloating from the governing Liberals of Jean Chrétien, who plans to step down as prime minister early next year. They have been in power since 1993, thanks partly to the opposition's divisions. Only a revitalised Tory party might pose a serious national threat to them.

The Liberals have a family saga of their own. Paul Martin, Canada's finance minister until last year, looks certain to win the Liberal leadership at a party convention in November, and thus become prime minister. Mr Martin's father ran several times for the Liberal leadership, but never with the money or organisation that his son commands. Mr Martin looks likely to hold the top job for a while—perhaps until Justin Trudeau, the son of another Liberal prime minister, makes his anticipated entry into politics.

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Venezuela's stand-off

Agreeing to disagree

Jun 5th 2003 | CARACAS
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No early recall for President Chávez

MORE than six months have gone by since César Gaviria, the secretary-general of the Organisation of American States, began to try to persuade Venezuela's government and its opposition to put aside their bitter quarreling long enough to strike a deal. At last, on May 29th, both sides signed a 19-point document. On paper, this opens the way for a recall referendum on President Hugo Chávez's rule shortly after August 19th, the midpoint of the president's term. But that is no more than the constitution says—and the two sides immediately fell out about the practical import of what they had signed up to.

Mr Chávez, a populist former army officer, has survived two opposition attempts to unseat him, first through a coup and then through a devastating two-month strike that shattered the economy. The opposition is now weary and demoralised—and may be too weak to ensure that the referendum happens.

Government politicians say that the opposition will not be able to gather the 2.4m signatures required under the constitution. A bigger obstacle is that the National Assembly, where Mr Chávez has a slim majority, has failed to appoint members to serve on the National Electoral Council. This body would have to decide on the validity of the signatures, when to hold a referendum, and whether to allow international monitors.

Mr Chávez's supporters point out that “more than 50” recall referendums have already been requested for mayors, assembly members and provincial governors. They claim that these should take precedence over that for the president. If the government delays a presidential referendum until August 2004, then, even it loses, under the constitution the (appointed) vice-president would take over.

Part of the opposition is already preparing for the vote. But others talk ominously of answering government foot-dragging with an “insurrection” or coup. The president's supporters are making their own threats. When the opposition tried to hold a rally in a *chavista* stronghold in the west of Caracas, gunfire erupted, leaving one dead and a score injured. The government called it a “provocation” and spoke of restricting the right to demonstrate. Mr Gaviria says he will return if there's a serious breakdown in the accord, and the two sides request it. He might want to leave a toothbrush in Caracas.

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Myanmar

The lady vanishes

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AP

What has happened to Aung San Suu Kyi?

UNTIL last week, any Burmese who wanted to hear Aung San Suu Kyi, Myanmar's most prominent democracy activist, could simply attend one of her frequent public speeches. Now, it is unclear where she is. The country's military junta, the State Peace and Development Council (SPDC), says that she is safe and well despite the fight that broke out at her most recent rally, but is being held at an undisclosed location “for her own protection”. Burmese exiles say that pro-government thugs have injured or—according to some of the wilder rumours—killed her. A blurry video clip, said to date to three days after the rally, shows her alive and not obviously hurt; other sources claim she was cut when a brick was thrown into her car. Only one thing is clear: that the regime's half-hearted dialogue with Miss Suu Kyi over the restoration of democracy is well and truly dead.

This is only the latest of many false starts towards democracy in Myanmar's 40 years of military rule. In 1990, the junta held elections, but then annulled them when Miss Suu Kyi's party, the National League for Democracy (NLD), swept the board. Since then, Miss Suu Kyi has spent most of her time under house arrest, while many of her supporters have languished in jail. But last year, the SPDC released her, and promised to begin negotiations about how Myanmar should be run. In the meantime, it said, Miss Suu Kyi was free to revive her long-persecuted party.

The government quickly began to regret that concession. By its own admission, Miss Suu Kyi drew huge crowds in her visits to over 100 districts in 12 of Myanmar's 14 provinces—a show of support that must have distressed the top brass. At any rate, it began to try to undermine her provincial tours. School teachers prevented their students from attending her rallies, NLD members say, while police tried to block her motorcade and disperse crowds waiting to see her. U Lwin, the NLD spokesman, recently complained of pro-government thugs beating up her supporters and even trying to drive her car off the road.

Something similar seems to have happened on May 30th, when a pro-government mob clashed with Miss Suu Kyi's entourage near the town of Depeyin, in the north. The SPDC, which had promised to provide for Miss Suu Kyi's security, admits that four people died; opponents of the regime put the number closer to 100. No one in the NLD knows the whereabouts of the 17 party activists who were accompanying Miss

Suu Kyi. Meanwhile, all senior NLD members in Yangon are now under house arrest and all party offices have been closed. Padlocks and wax seals hang from the gate and door of the party headquarters.

The regime might still reverse course and free Miss Suu Kyi—assuming she is in a fit state to be released. Razali Ismail, the UN envoy who helped negotiate her release last year, was due in Yangon on June 6th, and is demanding to see her. But it is hard to imagine Miss Suu Kyi and the junta starting up from where they left off. The events of the past week prove that the regime cannot stomach a revival of the NLD, let alone any form of power-sharing. Mr Razali has spent the past year trying to get the promised dialogue going, without any hint of progress. Foreign diplomats conclude that Than Shwe, the most senior general in the junta, has lost what little interest he ever had in speaking to the NLD.

Other members of the SPDC might think differently. Khin Nyunt, the third-ranking general, had told Thailand's foreign minister that he was planning to meet Miss Suu Kyi this month—an announcement that was seen as cause for optimism at the time. But he has given no indication that he disagrees with the current crackdown. And even if there is a power struggle within the regime, the hardliners clearly have the upper hand.

Nor is there much sign of public dissent. The government has closed all universities, presumably to pre-empt any student protests. A metal grille bars entry to the University of Modern Languages, one of the few that has not yet been shifted outside Yangon to insulate the students from politics. Many locals already assume that Miss Suu Kyi is dead or injured. But apart from furtive whispers, no one complains.

Foreigners have been more outspoken, but, so far, to little avail. George Bush led the chorus of international dignitaries who quickly condemned Miss Suu Kyi's detention. Moves are afoot to impose a total ban on trade with Myanmar in America's Congress. The EU might take similar steps. But both have already imposed some sanctions on Myanmar with scant results. What's more, Myanmar still enjoys amicable relations with fellow members of the Association of South-East Asian Nations, who are sticking to their cherished policy of non-interference in one another's internal affairs. Without the help of ASEAN and China, another friendly neighbour, no embargo will have much effect.

So the likelihood is that the SPDC will abandon its current pretence at democratisation and simply face down all criticism. Or, as the slogans printed daily in its mouthpiece, *The New Light of Myanmar*, put it, “Oppose foreign nations interfering in internal affairs of the State. Crush all internal and external destructive elements as the common enemy.” Not much room for compromise there.

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South Korea

No honeymoon for Roh

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The new president's first 100 days have not been easy

WHILE South Koreans were sizing up Roh Moo-hyun's first 100 days in office, which expired on June 4th, the new president may have felt as though he had already been in the job for 100 years. Internationally, he has had to deal with North Korea's nuclear threats and dicey relations with America. At home, economic demand is evaporating, he is dogged by scandal, and even his popular pledge to get tough on conglomerates is being tested. As the novice grapples with these challenges, the increasingly assertive Korean media have pounced on his every misstep.

Ordinary Koreans are not impressed. Polls conducted for this week's anniversary showed that Mr Roh's popularity ratings had dropped below 50%. His two predecessors, Kim Dae-jung and Kim Young-sam, still had 60-80% support on their 100-day anniversaries. Mr Roh's rough start may partly reflect a healthy democratic trend, in which presidents come to earth quickly rather than receiving too much deference early on. Clearly, however, his fledgling government has at times appeared overwhelmed by events.

To be fair, South Korea's economic plight would challenge any new government. Growth of 6.3% last year fell back to 3.7% in the first quarter of 2003 and the economy appears still to be sliding. That is a worrying trend in an economy geared for rapid growth. Both private consumption and business investment have slowed sharply, and the bursting of a credit-card bubble could deliver a further blow to consumption. A weak global economy, combined with the effects of the SARS virus on East Asian economies, is hindering exports. The nuclear crisis across the border has worried markets.

Mr Roh has responded by trying to reassure investors about Korea's long-term promise, such as by sticking with his pledge to make the country's conglomerates (known as *chaebol*) open and accountable. His government has said that it will not help to bail out SK Global, a troubled subsidiary of a big *chaebol*; on June 9th the Fair Trade Commission will launch investigations of subsidiaries at six big groups, including SK, that have been accused of financial misdeeds.

Most South Koreans, however, remain apprehensive. In a survey by *Dong-a Ilbo*, a conservative newspaper, 54% of those polled said that the economic situation now is worse than in 1997-98, a wrenching period in which output plunged 7% and South Korea had to seek a bailout from the IMF. Another 35% said that the current situation, if not worse, is at least similar to that crisis. On June 4th, Mr Roh's cabinet approved a supplementary fiscal stimulus of 4.2 trillion won ($3.5 billion), which it hopes will give the economy, and spirits, a vital boost.

So far, Mr Roh has fared somewhat better on foreign policy. After pledging during his campaign to stand up to America, he has, for the most part, tried to close ranks with the superpower in the hope of backing North Korea away from nuclear brinksmanship. A summit with George Bush in Washington last month went well, and seemed to help Mr Roh in the polls.

Many of his left-wing supporters, however, are not keen to see relations with Mr Bush—or for that matter with foreign investors—go smoothly. In a self-evaluation during this week's anniversary, Mr Roh rejected criticisms of his diplomacy. He did offer words of contrition, however, on domestic policy, saying that he had done a “weak” job of handling labour issues and of promoting economic stability for lower- and middle-class Koreans.

Some of Mr Roh's most damaging battles, meanwhile, have been with the media. His critics argue that he is too aggressive, blunt and critical, and that he gets excited too easily in public. One news service reported in detail how Mr Roh's “upper lips trembled and his voice rose a notch” when he was asked

about a scandal involving an aide during a press conference. Likewise, denials from the Blue House, as the president's residence is called, that there was anything untoward about a series of complex land transactions involving Mr Roh's brother have only added to the media's feeding frenzy. When the incumbent said that he was “not up to being a president” during a chat with union members on strike, as a way of telling them how much their protests were hurting him, it was an open goal for critics.

Not all of this is bad news. Mr Roh took office pledging to make South Korean politics more “horizontal” and less hierarchical. That he is being laid low so early is a form of progress. In defence of his media blunders, for example, Mr Roh has said that he is no longer directly responsible for all that goes on in government, so journalists should not hang on to his every word. Eventually, however, Mr Roh will have to learn how to function in the face of criticism. Hopefully, if his first 100 days have taught him anything, it is that presidents cannot afford to get flustered easily.

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China

The great flood begins

Jun 5th 2003 | BEIJING
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A river is blocked, but criticism continues to flow

Get article background

AFTER hundreds of studies, copious debate, and a decade of construction, the waters are finally rising behind China's huge new Three Gorges dam on the Yangtze river. In the small hours of June 1st, engineers began the third and final phase of the project when they closed 19 of the dam's 22 sluice gates. In two weeks' time, murky brown water will have backed up behind the dam to a height of 135 metres (440 feet) above sea-level. By the time the project is complete, in 2009, the reservoir will have risen still higher, and a 600 kilometre (375 mile) swathe of scenic China will be submerged.

As controversial as it is ambitious, the dam has elicited intense opposition from Chinese and foreign critics. Rehearsed *ad infinitum* since China's parliament approved the project in 1992, the litany of criticism is by now familiar: the Three Gorges dam is a wasteful and grandiose boondoggle that will inflict incalculable environmental damage along the Yangtze; priceless cultural relics and historical sites will be lost forever; the dam is so poorly designed that it is already cracking, and could either collapse or induce a disastrous earthquake; if somehow it stands, there will quickly be so much silt gumming up the dam's turbines that it will never produce the promised electricity; and a thuggish government has pushed the project ahead at the expense of 1.3m residents, who have been shabbily treated and forcibly relocated.

For its part, China insists the dam is all to the good. It will produce abundant clean hydroelectricity to power China's booming economy; it will improve navigation up the Yangtze, and irrigation all alongside it; most important, the dam will protect millions of residents at the river's lower reaches from summer floods that regularly devastate them.

Sniping from critics has done nothing to soften the government's resolve, but it has been enough to make the World Bank and other international agencies keep their distance. China has had to finance the $21.8 billion project itself (critics, of course, doubt the accounting and say the real cost is closer to $30 billion).

As if the fate of the Yangtze were not already high enough stakes, the outcome could also affect the future of China's next grand hydro-engineering scheme, a proposed $60 billion trio of canals to carry water from the well-endowed south to parched northern China. Any serious glitches at Three Gorges will nurture doubts about the wisdom of that plan, which has just got under way.

Francis Li, a Canadian hydro-engineer who worked on the Three Gorges project, says his early scepticism has turned to confidence. The cracks that have been found are normal for any massive concrete structure and pose no threat, he says. True, the dam will not manage to pay for itself without further reforms in China's irrational structure for the pricing and distribution of power; but starting from as early as this summer, China will reap huge benefits from its new ability to control flooding at the lower reaches of the Yangtze. “You can bet on that,” he insists.

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Afghanistan

That's one more murder solved

Jun 5th 2003 | KABUL
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With the homicide squad in Kabul

Reuters

The Kabul Kops

BY OFFICIAL count there were 844 murders in Afghanistan last year, or about 30% more than in New York City. But the Afghan definition of murder is tricky. Deaths from spasmodic tribal violence do not count, nor those at the hands of neo-Taliban fighters or caused by American friendly fire. Many murders go unreported, particularly those involving bandits or families: no one knows how many barren wives and handicapped children are secretly done away with every year.

According to the head of criminal investigations for Afghanistan, General Sebghatullah Saiq, most of the official murders are the result of robberies, drug deals gone wrong and land disputes, or are revenge killings. Mr Saiq is up against it. A lack of equipment and training, and corruption among his poorly paid officers, makes catching murderers difficult.

But not impossible. Take a recent case in Kabul. Two occupants of a Toyota Corolla were robbed and shot dead, their bodies buried nearby, and the car dumped on the other side of town. The bodies were exhumed after two weeks, fresh by modern forensic standards but a problem for Kabul's rudely-equipped pathologists, and even more so for Mohammed Dinarkhil's technical crime unit, charged with providing fingerprinting, as well as ballistic, photographic, chemical and biological evidence for murder investigations. His unit has no ballistics microscope to match bullets with guns and only two cheap cameras to photograph murder scenes (in black and white; colour film is too expensive). His team had little chance of nailing the suspects on forensic evidence alone, but fortunately they confessed in custody.

Whatever problems Mr Dinarkhil may have in Kabul, they seem minor when compared with those in the provinces. He offered a gloomy picture of just a few men with little forensic training covering huge areas by bicycle or on foot, sometimes arriving at the scene of a murder long after the body had been removed. Sometimes there were not even suspects who might confess in custody.

The Afghan police claimed to catch 194 murderers last year. “The spirit of the *mujahideen*,” explains General Saiq, slapping down a hand shattered by several Soviet bullets. Maybe too much spirit, say human-rights groups. They suspect Afghan police of sometimes compensating for a lack of forensic evidence by beating out confessions with rods, cables and electric shocks. Professional police officers such as Mr Dinarkhil, who returned to duty after the fall of the Taliban, claim to abhor such methods, but they have little sway over their subordinates, many of whom are battle-hardened former *mujahideen*.

Still, there has been progress. Some provinces will this month take delivery of murder box-kits, the better to rope off and examine crime scenes. Kabul appears to be slightly less murderous this year than last, thanks in part to more patrols of uniformed police. A new national police centre, underwritten by Germany, opened recently. Over the next five years it plans to produce 50,000 national police and a further 12,000 border police. All the government needs is money to pay them.

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Cambodia

Limousines and poverty

Jun 5th 2003 | PHNOM PENH
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Hun Sen goes electioneering

AFP

On the stump

THE Cambodian prime minister, Hun Sen, claims not to get involved in the cut and thrust of electioneering. In practice, he is campaigning hard for support in the National Assembly elections due on July 27th. In a typical recent exercise in self-publicity, he led a convoy of ambassadorial limousines into the central province of Kompong Speu for the opening of a canal that should deliver water and two rice crops a year to inhabitants of this hitherto parched heartland. The trip allowed him to show the diplomats of countries pouring aid into his impoverished country how he is bringing development, and to remind the local people that he is a leader who can deliver their needs.

Not all Mr Hun Sen's tactics are so benign. The previous parliamentary election, in 1998, came a year after a bloody coup that sent Prince Norodom Ranariddh, then his co-prime minister, and numerous opposition MPs into temporary exile. Mr Hun Sen's thugs murdered many senior members of Prince Ranariddh's royalist party, FUNCINPEC. The prince was allowed to return for the election but the poll was marred by the often violent intimidation of opposition supporters.

The coming election is unlikely to be as violent because Mr Hun Sen does not need it to be. Still, there have been a few warning shots. In February, gunmen on a motorcycle shot dead a senior FUNCINPEC official, Om Radsady, a close associate of Princess Vachara, an outspoken critic of Mr Hun Sen. As a warning, the murder was “like killing 200 people”, says a Cambodia human-rights worker. “It tells everyone ‘be careful, you are nothing, your life hangs by a thread'.”

Mr Hun Sen and his Cambodian People's Party have powerful electoral assets other than brute force: more money than the opposition, a more effective party machine, the administration's power of patronage and control of the media. The opposition parties' many flaws are also an asset to Mr Hun Sen. Prince Ranariddh bears an uncanny resemblance to his widely popular father, King Norodom Sihanouk, but offers little effective leadership. His party's popularity has steadily slipped. In the 1998 election it won 32% of the vote; in local elections last year it managed only 21%.

Sam Rainsy, a former finance minister, bravely condemns endemic corruption in what he calls a mafia state and seeks to woo the urban and rural poor. But his autocratic style as leader of the party that bears his name alienates allies almost as fast as he recruits them.

Yet after almost two decades of power, Mr Hun Sen has also failed to make himself widely popular. That may be because his government, while making some of its leaders rich, has been less successful at reviving the war-torn country. The government reports growth of 5% a year for the past five years, but that is below the 6-7% it acknowledges it needs to improve living standards. A study by the United Nations Development Programme published in March concluded that poverty had got worse. The rate of infant mortality has risen, from 79 deaths per 1,000 live births in 1987 to 95 per 1,000 in 2000.

And although Mr Hun Sen boasts of building thousands of schools at huge cost and school enrolment is solidly up, there is little sign much is being delivered in the way of education. The supply of teachers remains low and by some estimates up to half the children are dropping out before they finish primary school.

In March the government launched a $1.5 billion drive to reduce poverty, but the IMF says that for such a campaign to succeed Cambodia needs to attract more foreign investment. Last year the country secured only $60m in foreign capital, about half the amount of the previous year. Among the deterrents to investors is rampant graft. In its previous election manifesto, Mr Hun Sen's party promised tough action to curb corruption. This time it didn't bother to mention the problem.

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Cambodia's monarchy

The royal right to free speech

Jun 5th 2003 | PHNOM PENH
From The Economist print edition

The king mocks "our great leader"

HE BELIEVES he will die soon. But before he goes, the 80-year-old King Norodom Sihanouk is keen to put on record his thoughts about his country, and the way it is being run. One way he has been doing this is through open letters said to be written by Ruom Ritt, described as "an old friend" now living in France, but who is widely believed to be the king himself. Some of his comments have angered Hun Sen, Cambodia's prime minister, mockingly described in the letters as "our great leader" running a "beggar nation".

The king is undergoing medical treatment in Beijing for non-Hodgkin's lymphoma, a form of cancer, and other ailments. During his long life he has been a force in the country, and although he now lacks any formal powers, still commands a huge following among Cambodians. Invoking his constitutional role as "the protector of rights and freedom of all citizens", he refuses to be gagged. Land-grabbing by the rich and powerful, the plunder of the forest by logging companies and territorial losses are among his concerns.

Mr Hun Sen sees the king as interfering in politics. In a recent conciliatory move the king has apologised for any offence caused and promised that "Ruom Ritt" will put down his pen. Nevertheless, he asserted his right to speak out on the problems that plague the nation. In a country where the courts are corrupt and the poor have few rights, many seek to bring their grievances to the attention of the king.

Some supporters of Mr Hun Sen wrote a letter of their own to the *Phnom Penh Post*, saying that the prime minister "leads the country better than all the Cambodian kings". A royalist MP demanded, pointlessly, that the letter writers be arrested for insulting the monarchy.

The king has thoughts on his mind other than annoying Mr Hun Sen. Who will be the next monarch? Possible princely successors were tainted by politics, he wrote from Beijing. He suggested that the constitution might have to be modified to allow his wife, Queen Monineath, who is much younger than the king, to succeed him. King Sihanouk will be a hard act to follow. Typically, he is offering Cambodia wise advice.

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Iraq under occupation

Nobody loves an occupier

Jun 5th 2003
From The Economist print edition

Reuters

Iraqis are impatient with the Americans yet want them to stay

Get article background

AMERICA will stay in Iraq as long as it takes to get the job done, and not a day longer. So insists Paul Bremer, the ex-diplomat who heads the Provisional Authority that ostensibly runs the country. The phrase is meant to reassure Iraqis. But after two months under occupation, few seem impressed with the job America is doing. Worse, many Iraqis still don't know what it is that America is trying to achieve.

If it is to restore basic services, then yes, petrol queues are getting shorter, and the power supply less spotty. But if the aim is to improve security, Saddam and cronies remain at large, American troops are getting shot at more often, and Baghdad still shuts down under a nightly curfew. And if America's goal is to plant the seeds of democracy and good governance, the movement Iraqis perceive is backwards.

“America=Saddam”, proclaimed the placards in one of the demonstrations that have become a daily feature in Baghdad. Silly and overstated, perhaps, but the occupying powers do seem to be systematically alienating different segments of the population. This week, it was, among others, civil servants and soldiers rendered jobless by the dissolution of Iraq's 400,000-man army and overstaffed Ministry of Information. One group of pious Muslims protested the arrest of a Shia cleric. Another group gathered to condemn the invasion of privacy and female honour by American soldiers searching for weapons.

Even the exiled opposition politicians who have been America's main Iraqi allies have now taken offence. Announcing that he would simply appoint Iraqi advisers to various ministries, Mr Bremer put paid to the opposition's hopes of playing a leading role in choosing an interim government. The 25-30-man team would, in theory, gradually assume control of their ministries from American bosses. Yet the move appeared to abrogate the previous understanding that a yet-to-be-formed assembly of perhaps 300 representative Iraqis would themselves select a provisional national authority to fill ministerial posts. Chagrined, the opposition say they will go ahead and convene an assembly anyway.

American officials defend the decision to bypass the opposition on several grounds. Waiting for Iraq's

fractured mosaic of politicians to get around to meeting, let alone to choosing a government, is simply not wise, they say, given the urgency of the country's problems. There is also a danger that the exiled parties who have a head-start in political organisation would dominate, and therefore de-legitimise, a hastily arranged national assembly.

The overriding reason for skirting party politics, however, may be Mr Bremer's desire to appear decisive. This he has achieved, particularly as compared with the amiable drift that seemed to characterise his predecessor, Jay Garner. Given Iraq's authoritarian legacy, acting tough may not be a bad thing.

The trouble is that America's instruments of control are not very effective. Declaring a ban on weapons looks well on paper. It was quickly realised, though, that the ban could not extend to the Kalashnikov assault rifles found in millions of Iraqi homes. Even restricted to heavier weapons, the ban has not persuaded many Iraqis to hand over what is in many cases their most valuable property.

Meanwhile, large swathes of the country, particularly in the Sunni and Baathist heartland north-west of Baghdad, remain danger zones for American troops. The soldiers themselves are not trained for the type of policing duties they are now required to undertake. Gaps in language and standard of living create constant friction.

In one recent incident, soldiers of the 4th infantry division killed four wedding guests in Samarra, a previously peaceable town, after mistaking a happy caravan of horn-tooting, gun-firing cars for attackers. Knowledge of the country is extremely rare among coalition officials: one of Mr Bremer's aides was recently overheard asking an Iraqi what the difference is between a tribal sheikh and a religious sheikh. And while America spends $1 billion a week maintaining its 150,000 men in Iraq, the country's 25m citizens survive on something like $10 a head.

But if Iraqi patience is wearing thin, many are still willing to give America a chance. A recent opinion poll—not very scientific but still an unheard-of innovation for Iraq—found that around one-third of Iraqis want the Americans to leave immediately. Two-thirds, however, said they should stay until a legitimate national government is up and running.

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Life in Basra

Making do, with difficulty

Jun 5th 2003 | BASRA
From The Economist print edition

People in Basra are disillusioned with the British occupiers

AFP

The everyday trip to school

FAUZIA, an illiterate mother of seven, has begun going to college. Each day, she heads for Basra University's eucalyptus trees to machete off its branches for firewood, reducing a grand arbour to stumps. “Before if we dared chop down the trees, Saddam Hussein would have chopped off our heads,” she admits, beneath a bundle of branches. In this city of oil terminals she has no money to buy fuel for cooking.

More than the trees are suffering from the Anglo-American forces' failure to get a system going. Two months into their rule, electricity and water in Iraq's second city remain erratic. Iraqis, say relief workers, are looting to live. Since the war, only a tiny proportion have received the rations on which 60% previously survived.

Apart from a $20 emergency payment, civil servants are either unpaid or have been sacked altogether. Servicemen and women from the disbanded army and Information Ministry prowl the streets. In a bid to bolster law and order, Basra's prison has been reopened and the courts spruced with a fresh lick of paint. But the suspects have yet to arrive. “Besides we have no paper, tables or books,” says a Baathist judge, as he suns himself in the court gardens.

Religious vigilantes are fast filling the vacuum, purifying a port whose reputation as the Venice of Iraq was due as much to its lifestyle as its matrix of canals. University students are told to do up their top buttons, and to hold separate classes. Girls veil their faces, and boys sprout two-month-old beards. Basra's 137 liquor stores, the staple income for its 1,150 remaining Christian families, closed after two distributors were shot.

At the gates of Saddam's palace, now the domain of Britain's armed forces, a Christian woman collapses in tears, begging for protection after religious militias threatened to kill her. Soldiers manning the gates flick her away. “Tell her it's not our jurisdiction,” they say.

Human-rights groups insist that it is. “Primary duty for security rests with the occupying powers, particularly in the case of revenge killings,” says Kathleen Cavanaugh of Amnesty International. The 48 military police brought in to protect Basra's 1.3m people are, she says, “astonishingly insufficient”. International monitors touring prisoner-of-war camps found men labelled “terrorists” had been beaten

with rifle butts, along with a posse of tomato farmers, whose American captors had mistaken their job description, *fellahin* (peasant), for *fedayeen* (guerrillas).

Outside Baghdad, Basra remains Iraq's only city without its own governor. On June 1st, Brigadier Adrian Bradshaw, commander of the Desert Rats, declared himself the leader of the city's local council of technocrats, declining an election on the grounds it would take too long. In protest, the members walked out, led by the director-general at the Education Ministry, a Qom-trained cleric. Thousands of people then took to the streets.

To discourage an infusion of religious appointments, the military powers are refusing to pay new employees hired since the war. Revealingly, the education department at Um Qasr port has been ordered to teach Spanish, the language of the local coalition force. “It looks like they're in for the long term,” mutters a teacher.

Many people agree that the occupying armies need more time to foster a non-religious voice. But religious groups are already setting up their courts and neighbourhood watches, and using their pulpits to demand that the British troops get out. Old-timers still remember Britain's last occupation with goodwill, but initial enthusiasm for its presence is eroding fast.

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Life in Najaf

No elections, in the name of security

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From The Economist print edition

Which does sound a bit too familiar

TWO months into their rule, American administrators last week suspended elections indefinitely in Najaf, the Vatican of Shia Islam. Their pretext was one with which most Middle Eastern dictators would sympathise: security. We first wanted to make the country more stable, said an American army spokesman. There were also procedural difficulties, or so they said.

But Najafis, awaiting the dawn of the democratic new age, suspect that the real reason, again shared by many Arab regimes, is the fear of radical clerics being elected. “Being a parent isn't easy,” said a rather patronising American major from his base in what was before his arrival the town's university. “Sometimes you have to correct your children, even when you know it's tough love.” Wait two more months, he suggests.

All of which suits Abdel Moneim Aboud, Najaf's unpopular, self-appointed governor. A former army colonel, he says he was elected by 100 tribal sheikhs. When asked why he released three men suspected of killing Abdul Majid al-Khoei, a London-based cleric stabbed to death on the steps of Najaf's Imam Ali shrine, he says he handed them over to the requisite authority, declining to say what that is.

Mr Aboud is said to be building up an armed police-cum-militia, run by his brother, Muhammad, who stalks the governorate with an arsenal of guns slung over his shoulder. When he drives, he brings a convoy of police cars in tow.

His policemen, dressed in American coast guard uniforms, flourish AK-47s, which America permits after providing two days of training. Unfortunately, none of this leads to security for the people of Najaf. Women fear kidnapping, and grenades, costing the price of four coke cans, regularly go off in the bazaar, allowing looters to plunder in the pandemonium that follows.

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The marsh Arabs of Iraq

Do they want to go back in time?

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From The Economist print edition

Victims of Saddam, but now hesitant about rehabilitation

THE people of al-Naser, a township in a desert that used to be marshes, recall a day in 1994 when a cousin of Saddam Hussein's ordered them to abandon their reed houses in the adjacent bogs. “The next day”, says one, “they came in helicopters and boats and burnt our homes.” The survivors, who used to make their living as fishermen, had to turn to cultivating wheat on reclaimed marsh. They still rely for water on tankers from nearby Basra.

Before Saddam's fall, environmentalists had predicted that Iraq's ancient marshlands would be completely destroyed within a decade. The construction by Turkey and Iraq of 32 big dams along the Euphrates and Tigris, the main rivers that feed the marshlands, together with the Iraqi regime's politically-inspired reclamation project, desiccated 93% of the Middle East's biggest wetland.

Though the end of Baathist rule may have little effect on Turkey's uncaring dam-building programme, or Iran's aspiring one, it does remove the political reason for accelerating the marshes' obliteration. Saddam turned to punitive hydro-engineering in earnest after the failed rebellion by Iraqi Shias at the end of the first Gulf war in 1991, when the marshes became a haven for rebels and army deserters, as well as for common criminals.

Billed unconvincingly as an irrigation project, a network of canals and dykes directed vast amounts of fresh water directly into the sea, or into artificial lakes, where the water evaporated. Thousands of marsh Arabs were killed. More than 200,000 are thought to have been forced from their homes (some 40,000 of them fleeing to refugee camps in Iran), either by the receding waters, or by less subtle incentives. A tenacious few continue to live in squalor on levees, grazing buffalo and gathering reeds in the remnants of marsh.

Occupation by America and Britain has generated hopes of a reprieve. A few kilometres west of Basra, water from the Shatt al-Arab, the outlet for both rivers, flows through holes that locals have punched in a dyke. Farther north, near al-Amarah, another stretch of former marsh has been freshly inundated. As the salt crusts are submerged, locals look forward to next year, by which time the all-important reeds may have grown back.

American-based scientists, who have been asked by the Bush administration to look at ways of rehabilitating the marshes, worry that this sort of ad hoc water release could cause more problems than it solves. The dearth of spring floods has made the Shatt al-Arab very salty, and its water may be unsuitable for reviving the marsh around Basra. Furthermore, fresh water, when it is available, needs to be pumped quickly in high volumes, if the ex-marshes are not to become salty ponds.

Everyone agrees that rehabilitation should be planned, and concerted, but those American-based scientists have yet to reach Iraq. And while the idea of restoring the marshes certainly sounds attractive, it may not be all that easy to sell to some of the marsh Arabs themselves.

Take the people of al-Naser, some of whom are from the Shaghanba tribe, which dominated an area of marshland farther north. As Saddam drained the area, they drifted, following the dwindling supply in

pursuit of water for their buffaloes. They are now fed up. They would rather, they say, stay put and carry on farming—provided local services are improved— than return to a rehabilitated marsh.

A few kilometres south of al-Naser, a second group of Shaghanba have clung stubbornly to a causeway in the face of Saddam's depredations, and suffered accordingly. Children die from drinking dirty water. Literacy is virtually nil. Some of these Shaghanba say they would return to the old life, if they could. Others are more interested in the pick-ups, stolen from Basra during the current lawlessness, that are parked outside their hovels.

The Shaghanba accuse Saddam of deliberately exacerbating a blood feud between them and another tribe, which has so far claimed dozens of lives, and prevents them from moving freely. As much as the revival of their former homeland, they look to the intercession of tribal and political leaders in Basra to end the feud, so they can have better access to medicines and provisions. The old marsh life, a combination of artistry and innocence that captivated outsiders well into the 1970s, may perhaps remain the property of ageing memories and old travel books.

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Africa's longest-serving president

Never Togo

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From The Economist print edition

Since before a man walked on the moon, another has trampled on Togo

AFP

Praying for another 36 years in office

HE HAS been president of the small west African republic of Togo since 1967—before some heads of state were born. But Gnassingbé Eyadéma's people are not as enthusiastic about him as this week's election results suggest. “Couldn't we just have one year of someone different, to see what it's like?” grumbles one resident of Lomé, the sultry capital.

Six candidates ran for president last weekend, but only one face appeared on the ubiquitous billboards. General Eyadéma, a tall, handsome former wrestling champion, often sports dark suits and sunglasses and appears flanked by choirs of dancing gospel-singers. He has a penchant for brass bands and Louis Armstrong impersonators. Since he came to power, the Boeing 747, the personal computer and genetic engineering have all been invented, but the average Togolese has grown 12% poorer.

The election campaign did not lack razzmatazz. Floats of singing policemen on motorbikes, and acrobats on horseback, rolled along Lomé's palm-fringed seafront. But some Togolese found it hard to forget the hundreds of bodies that washed up on the same tropical beaches after the last presidential poll, in 1998.

Two years ago, Mr Eyadéma promised to step down this year, as the constitution adopted in 1992 said he had to. But last year, he changed his mind. In the interests of “peace and stability”, he said he was willing to make the “sacrifice” of standing again. Parliament duly abolished presidential term limits, and introduced a new residency requirement for candidates that excluded his main rival, Gilchrist Olympio, who lives in exile for fear of being murdered. Mr Olympio is the son of Togo's first president, who was stabbed to death in 1963, during a coup led by Mr Eyadéma, then a young sergeant.

Mr Olympio named another candidate, Bob Akitani, to represent his party, the Union of Forces for Change (UFC), at the polls. It is hard to say how popular he is. The official results, announced on June 4th, gave Mr Eyadéma 57% of the vote to Mr Akitani's 34%. But the poll was suspect. In one region, Zio, the vice-president of the Independent Electoral Commission complained that ballot boxes had already been stuffed with votes for Mr Eyadéma when polling stations opened.

The results were supposed to have been announced on the evening of June 1st, but were delayed. On June 2nd, some early results were revealed, which put Mr Eyadéma in a commanding lead, but this did not stop two opposition parties from claming that their candidates had won. That night, many people celebrated their supposed victories. The next morning, the empty shells of burned-out houses were visible in several areas.

The EU has cut off aid to Togo because of the government's lukewarm commitment to democracy and human rights, so Mr Eyadéma is anxious that this week's poll should win international approval. That could be tricky. The EU and UN did not even send observers. The ever-reliable African Union, however, gave the election a hearty thumbs-up, as did some independent observers invited by the Togolese government. Martin Luther King III, the son of the late American civil-rights leader, called the ballot “well-organised” and “impressive”.

The view on the streets was somewhat different. One young opposition supporter, alluding to the popular suspicion that France's president, Jacques Chirac, is lobbying to have EU aid to Togo restored, shouted that: “If he [Chirac] accepts these elections, we will all kill Frenchmen!”

Meanwhile, the UFC claims that its headquarters was stormed by trucks full of special election police. Circumstantial evidence supports this story. Cowering behind the gates, picking through empty teargas canisters and rubber-bullet casings, one UFC supporter held up a small white shirt soaked in blood. It belonged, he said, to a nine-year-old boy, who was beaten with a club as he tried to run away.

Some members of the ruling party's youth wing also displayed short tempers. One group, celebrating Mr Eyadéma's victory before it was officially announced, drove dozens of white minibuses through town, sporting green party flags and giant posters of their hero. A photographer sharing a car with this correspondent snapped a picture. Seconds later, a stone flew through the windscreen, and masked youths with nail-studded baseball bats started smashing the other windows. After a few minutes, covered in blood and glass, your correspondent and her colleague were rescued by friendlier members of the ruling party, who apologised for their overzealous brothers, saying they had mistakenly believed that the car contained UFC supporters. On the television news that night, the whole incident was blamed on the opposition.

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Zimbabwean protest

"No need to panic"

Jun 5th 2003
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A strike succeeds, but street protests are cruelly crushed

ON THE first day of this week's national strike, in the township of Kuwadzana, soldiers went from door to door, pulling strikers out of their homes, force-marching them to the commuter train, and ordering them to go to work. As strike-busting tactics go, this was not particularly effective. When the workers arrived in the centre of Harare, Zimbabwe's capital, they found it nearly deserted, apart from the armoured cars patrolling the streets, so they quietly slipped back home.

It could almost be a metaphor for the way Robert Mugabe runs Zimbabwe. Brute force is his answer to most problems. That is largely why Zimbabwe has grown so much poorer under his rule, and why his subjects are so desperate to get rid of him. But it is also the main reason they have not yet succeeded.

This week, the main opposition party, the Movement for Democratic Change (MDC), promised a "final push" to liberate the country. There were to be huge demonstrations, and a week-long general strike. The strike has been a triumph: businesses in major cities have almost all closed. But the demonstrations have been less successful, because although Zimbabweans do not believe much that their government says, they trust its promise to beat the hell out of them if they take to the streets.

Before the rallies were due to begin, the police arrested the MDC leader, Morgan Tsvangirai. He was charged with contempt of court, for failing to call off the demonstrations, as a judge recently appointed by Mr Mugabe had ordered him to do. He was then released, but still faces separate charges of treason relating to an implausible plot to kill Mr Mugabe.

A few thousand demonstrators tried to march in Harare and Bulawayo, Zimbabwe's second city, but were swiftly dispersed with tear-gas and beatings. Police and soldiers fired live rounds over demonstrators' heads, reportedly injuring some. Any gathering of more than two people was liable to be broken up. Hundreds were arrested, and many more were whipped, or forced to lie on the pavement with policemen's feet on their heads. Police even burst into a private hospital to drag out injured protesters. According to the MDC, one of its activists, Tichaona Kaguru, died after being tortured by the security forces.

How much has all this weakened the government? A lot, reckons the *Daily News*, an independent newspaper. "All signals point to one certainty," thundered one editorial, "freedom is coming tomorrow." The government-owned *Herald* disagrees. "MDC marches flop", crowed one headline. The paper went on to describe the week's events as "a defeat [for] the MDC's sponsors in Britain and America".

The truth is probably somewhere in between. The MDC has shown, once again, that the people of Zimbabwe detest their rulers. This week's national strike was the third in as many months. All have been well-observed. The demonstrations may have been small, but larger ones may follow. As people get hungrier, they may feel that they have nothing to lose by confronting the regime.

On the other hand, the government has shown once again that it has all the guns, and is prepared to use them. The top ranks of the army and police owe their jobs to Mr Mugabe, and many have been given country estates as part of his programme of "land reform". The lower ranks are less partisan, but fear losing their jobs at a time when there are few others in Zimbabwe. And in case one arm of his terror machine falters, Mr Mugabe has reportedly distributed assault rifles to his personal militia, whose members are responsible for the worst atrocities against the opposition.

Many police are appalled that they are now expected to act as enforcers for the ruling party, but sticklers for upholding the law impartially tend to get purged. One policeman, who was shoved out 12 months ago

after 20 years' service, says, “The way the government is politicising the police force is terrible. But everyone knows this cannot last.”

The economic crisis has grown so acute that the security forces are suffering, too. Many are struggling to feed their families. Last week they received only a fraction of their pay in cash. One reason was that, in anticipation of this week's strike, so many people tried to make withdrawals that the banks ran out of notes. The central bank's governor told journalists that there was “no need to panic”, assuring them that more would soon be printed. Inflation is 269% and rising. Brute force will not solve any of these problems.

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German reforms

The chancellor gets his way, so far

Jun 5th 2003 | BERLIN
From The Economist print edition

Getty

Germany's economic reforms are on track, for now

Get article background

MANY doubted whether Germany's Social Democratic chancellor, Gerhard Schröder, would have the guts to push through the package of labour-market and welfare reforms he unveiled in March. His blustering claim that “what has been decided will now be implemented” was received with widespread scepticism. The leader of a party so beholden to the trade unions was bound—his critics sneered—to buckle in the face of the “massive resistance” promised by the union leaders. But so far he has not. Indeed, he has just notched up his first big victory in his battle to get the whole of his “Agenda 2010” reforms on to the statute books by early next year.

At a special party conference in Berlin on June 1st, Mr Schröder won an unexpectedly handsome vote of confidence, without having seriously to water down his plans. Party officials said that some 90% of the 524 delegates gave their approval on a show of hands for what, despite its limitations, is probably Germany's most far-ranging batch of reforms in half a century. They include an easing of job protection, cuts in unemployment and sickness benefit, and a relaxation of the rules on collective bargaining.

The only notable concessions won by the rebels were a commitment to “examine” demands to reintroduce a wealth tax and increase inheritance tax; a threat by Mr Schröder to put financial sanctions on companies that fail to offer apprenticeships; a withdrawal of plans to bring in a flat-rate savings tax of 25%; and the promise of a costly programme to help provide jobs for older people out of work. The government may also agree to extend the period of full unemployment benefit for those over the age of 55 if they cannot find a suitable job. Under its present plans, the maximum period of full benefit would be cut from 32 months to 18 months for the older unemployed and to just a year for those under 55.

Throughout his conference speech, entitled “Courage for change”, Mr Schröder hammered away at what have become his favourite themes. “We cannot go on as we are,” he said. “There's no way we can avoid change...We must say goodbye to much that has become dear to us but is also, sadly, too expensive...We must change our mentality and have the courage to face up to reality...Demographic decline and an ageing population will soon make our health and pensions systems unaffordable...A lot will have to change just in order for our high standard of living and exemplary welfare system to remain as

they are....There's no reasonable alternative."

All that is a far cry from the speeches he made in his re-election campaign in the autumn. Nearly a year will have been wasted by the time the reforms start biting. Are Germans now ready for them?

In the past, they have always indicated that they were, but then rejected measures that threatened to hurt them personally. Now, at last, they may have begun to realise that painful change can no longer be put off. Two in three Germans say that reform is urgent. A third even say that the government's plans do not go far enough; only a quarter say they go too far. Yet despite this apparent approval for the government's package, support for the ruling Social Democrats has fallen to its lowest point (around 26%) since the second world war, putting the opposition Christian Democrats and their Bavarian sister party, the Christian Social Union, a good 20 percentage points ahead in the opinion polls.

Could it get any worse?

This may be largely due to the economy's continuing gloom. After its contraction in the first quarter, there are fears it may decline again in the second, sending Germany into its second recession in just over a year. Unemployment is fast approaching a post-war record. Welfare contributions, equivalent to over 42% of gross wages, are nearing their highest point ever. And public finance is in crisis. Mr Schröder has admitted for the first time that the deficit may, for the third year in a row, exceed the euro zone's limit of 3% in 2004.

But all this could turn out to be a blessing in disguise. One top Social Democrat has conceded: "If we had 2.5% growth this year, the reforms would have been put off yet again." Mr Schröder insists that his party's unpopularity and its electoral humiliation in state elections earlier this year were "not because we were too pro-reform but because we were too timid".

Mr Schröder is delighted by the recent unexpectedly strong backing for his reforms at the party conference. But he knows that the hardest part lies ahead. His party is split. The government has only a nine-seat majority in the Bundestag, parliament's lower house. A handful of rebels could defeat the government. In the Bundesrat, the upper house, where federal Germany's 16 states are represented, the government is already in a minority. That could get even slimmer if the ruling Social Democrats in North Rhine-Westphalia, Germany's most populous state, carry out a threat to dump their Green partners in favour of a coalition with the liberals.

The conservatives have offered Mr Schröder "constructive support" for his plans, so long as they "go in the right direction". That, at least, is their official line. But behind the scenes, they talk of blocking every bill that comes before the Bundesrat this autumn in the hope of toppling the government and forcing the Social Democrats into a "grand coalition" with themselves. They would then press Mr Schröder (or, more likely, his successor) to adopt even more unpopular reforms and finally force a general election as the Social Democrats' support begins to drift away.

That, at least, is the rumour. What is certain is that Mr Schröder needs all the stamina and courage he can muster over the next six months to see his plans through—and save his own political skin.

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Germany's health-care reform

Is it enough?

Jun 5th 2003
From The Economist print edition

A controversial health-care reform plan is still not sufficiently radical

WHEN unveiling his proposed package of labour-market and welfare reforms this spring, Chancellor Gerhard Schröder described those for health care as “the most important and necessary part”. But anyone hoping for a truly radical revamp of the country's high-quality but hugely expensive and inefficient public health service will be glum. The bill approved by the cabinet last week has some bold bits, yet it is more an exercise in shuffling around the costs than a true restructuring of the system.

Germans spend more on health than anyone else in the world, bar the Swiss and Americans: *euro*2,740 ($3,014) per head each year, amounting to 11% of GDP. That is nearly a third more than the European Union's average. Germans stay longer in hospital than almost everyone else, have more x-ray and ultra-sound examinations, swallow more medicines, and visit the doctor more often: researchers say that up to a half of consultations are unnecessary.

Most of the 90% of Germans who use the public health-care system are happy with it. They can choose their doctor and see him more or less whenever they want, without long waits. They can get an array of virtually free services, from false teeth and glasses to psychoanalysis and homeopathy. But they grumble more and more about contributions for health care taken out of wages, a cost shared equally by employer and employee. In the past decade that contribution has risen by a third, and now eats up 14.3% of gross wages.

To bring health spending back under control, the government is proposing measures meant to lop *euro*20 billion off the public health service's *euro*142 billion annual cost and to bring contributions back to under 13%. Certain non-health-related benefits, such as maternity grants, are to be transferred from the health service to general taxes. Germans will no longer be reimbursed for their purchase of glasses, artificial insemination or over-the-counter drugs, while they will also lose the current grant of *euro*525 when a family member dies.

Moreover, under the new plan, patients must dig deeper into their own pockets for prescription drugs (*euro*4-8 per box, according to size, instead of the present flat rate of *euro*4-5) and for staying in hospital (*euro*12 a day instead of the current *euro*9). They must also pay a quarterly fee of *euro*15 for visiting a specialist without a referral from their ordinary doctor. Most controversial of all, contributions for long-term sickness benefit will be paid by the worker alone and no longer by the employer too.

But the growing sophistication and expense of modern medicine combined with the rapid greying of Germany's population mean that such proposals are unlikely to check the country's spiralling health costs any time soon.

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The Italian press

Under pressure

Jun 5th 2003 | MILAN
From The Economist print edition

A suspicious change of editor at Corriere della Sera

THE resignation of Ferruccio de Bortoli, editor of *Corriere della Sera* for the past six years, has made a big stink. The Milan-based newspaper is Italy's grandest and biggest daily, with sales of 700,000. It is serious, takes itself seriously, stands for the old establishment of business and the professions, and is the media's most independent voice. Its editor's departure has raised grave concerns about the control and ownership of Italy's media.

Mr de Bortoli had plainly been under strong pressure over the past two years from people in or close to the government of Silvio Berlusconi. He had, for instance, been served with libel writs from two of Mr Berlusconi's lawyers; and some of *Corriere*'s reporters following the various criminal trials of the prime minister have been threatened with legal action.

The *Corriere* has been at odds with the government over Italy's economic management. It was sceptical of the government's support for the American-led war in Iraq. And it has one of Italy's sharpest cartoonists, Giannelli, who riles Mr Berlusconi with jokes on the front page.

But Mr Berlusconi has been most irritated by the newspaper's coverage of court hearings in Milan, where he is accused of bribing judges, and of a case in which Cesare Previti, an MP and close friend of the prime minister, was recently sentenced to 11 years in prison for a similar crime. *Corriere*'s reporting of the cases has probably been the most comprehensive and balanced in the Italian media.

Italy has a sad record of journalists succumbing to pressure from politicians and officials. Quite a few of them are virtually bought by powerful interests; many find it hard to fend off the combination of temptation and bullying that the government has at its disposal, all of which makes *Corriere*'s role all the more vital.

Mr Berlusconi is easily Italy's leading media magnate. He owns the three main private television channels and influences what is beamed by the three big state channels. His wife and brother own national daily newspapers. The biggest prize, among newspapers, would be *Corriere della Sera.* Mr Berlusconi has long itched to control it, should it become available.

The paper's biggest shareholder is Fiat, with 10.2%; the car maker's long-time boss, Gianni Agnelli, who died in January, was able virtually to appoint the editor. The second-biggest shareholder is Mediobanca, an influential bank, with 9.4%. A shareholder pact embraces this pair and half-a-dozen members of Italy's business elite. But Fiat's financial troubles, the demise of Mr Agnelli and upheavals at Mediobanca have given the impression that *Corriere*'s ownership is unstable and that it could be vulnerable to a takeover.

The new editor, Stefano Folli, has been a respected columnist at *Corriere* for 12 years. He will try to maintain his predecessor's independence. The litmus test will be whether reports of criminal cases involving the prime minister and his friends remain comprehensive and trenchant.

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Poland's EU referendum

Come on, try getting excited

Jun 5th 2003 | WARSAW
From The Economist print edition

The Poles sound diffident about what should be a historic moment

Poles who want to vault in

Get article background

YOU might expect Poles to be in a triumphant mood on June 7th and 8th as they vote on their country's proposed entry into the European Union, due in May next year, with the referendum crowning five years' tough negotiation. Pope John Paul, a Pole himself, has urged his compatriots to vote to join the EU, calling the event “a mark of historical justice”. Tony Blair, the British leader, sent a similar if more circumspect message while visiting Poland last month, saying it was “better to be in [the European Union] than out”.

Yet many Poles seem diffident. Forecasters were confident this week that a majority would support entry, but less confident that the turnout would top 50%, the threshold for making the vote binding. A lower turnout would oblige Poland's parliament to take the decision on EU entry instead—an adequate but inglorious way to seal the country's future, and one that would let Polish Eurosceptics blame scheming politicians for stealing their sovereignty. “If it's a yes vote, we want it to be in parliament, so we'll always know who brought us in,” says Maciej Giertych, an MP for the League of Polish Families, a nationalist party that is against EU entry.

The government has chosen to extend the referendum over two days in the hope of attracting more voters: a similar ploy worked well in next-door Lithuania last month, where a two-day referendum drew a 63% turnout and a 91% yes vote. Recent votes in Slovakia and Hungary also produced big majorities in favour of joining, but on disappointing turnouts of 52% and 46% respectively. Czechs will be next to vote, on June 13th and 14th. By the end of September all ten countries (bar Cyprus) waiting to join the EU next year will have voted on the accession treaty which they signed in April and which must also be ratified by the 15 current EU countries.

Poland's vote is the most closely watched, because it is by far the biggest of the ten, accounting for more than half their total population and almost half their GDP. Once inside the Union, it will rank below only Britain, France, Germany and Italy in voting power. Alone among the new members, it will have a leading voice in all EU decisions. Its priorities are likely to include securing more subsidies from Brussels for its farmers; lobbying to keep open the long-term prospect of EU membership for its big neighbour Ukraine; and keeping the EU well away from “family” issues such as divorce and abortion, where Poland fears dilution of its predominantly Catholic values.

Poland's Atlanticist instincts will make it an ally for Britain in European defence policy. It has courted French displeasure twice already this year, by ordering American-made F-16 warplanes for its air force and by backing the Americans in their war in Iraq, despite withering public criticism of Europe's eastern newcomers from France's president, Jacques Chirac.

Poland has emerged a winner diplomatically from Iraq, more so than Mr Chirac at any rate. By seizing a chance to act internationally, it has increased its prospective clout within the EU while also confirming itself as America's best friend in continental Europe. During a visit to Cracow on May 31st, President George Bush declared, encouragingly if disingenuously, that Poland was “a good citizen of Europe, [and] a good friend of America, and there is no conflict between the two”.

A solid yes vote would be one way for Poland to confirm its enthusiasm for the EU. The main danger comes less from Euroscepticism than from a history of political cynicism and low voting turnouts. The 1997 constitution, which rashly fixed the 50% turnout threshold for referendums, was approved by a referendum in which only 43% voted. Some Poles may shun the vote on EU entry because they think the decision has, in effect, already been taken. According to one poll taken last month, a majority thought the country would join the EU even if the referendum produced a No vote: parliament would overrule the decision, or a new referendum would be held.

Another problem is the unpopularity of Poland's left-wing government, led by Leszek Miller. A corruption scandal has undermined its authority, high unemployment has made it even less popular, and its majority in parliament disappeared in March when Mr Miller's Democratic Left party broke with its junior coalition partner, the Peasants' Party. That has left Mr Miller, a supporter of EU entry, in no position to cheerlead for the referendum. He has had to cede that role to Poland's president, Alexander Kwasniewski.

If the decision on EU entry does end up in parliament, Polish MPs should muster readily enough the two-thirds majority needed to approve accession. It is open to much more doubt whether Mr Miller could long survive the humiliation of a botched referendum. Even a successful one may not revive his sagging fortunes for more than a few months. Last week Mr Kwasniewski stepped up the pressure by saying Poland would need a prime minister with a parliamentary majority to push through next year's budget. One candidate may be Jerzy Hausner, the country's Keynesian-minded economics and labour minister; under his leadership the Democratic Left would find it easier to form a new coalition with the Peasants' Party.

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Spain's high-speed trains

Unrolling stock

Jun 5th 2003 | MADRID
From The Economist print edition

Why plans for a fast rail link to Barcelona are so fraught

NOTHING better illustrates the history of acrimonious relations between Spain's two biggest cities, Madrid, the national capital, and Barcelona, that of Catalonia, than the state of the high-speed railway that lies between them. Or rather, that should lie between them.

High-speed trains—known in Spain as the AVE, like France's TGV—have linked Madrid southward to Seville since 1992. It was agreed that year to build a similar line north-eastward. Yet the rails have only just reached 465km (290 miles) from Madrid to the Catalan town of Lerida, thanks not least to wrangling among Spain's many tiers of authority and a political will that jolts between goods-train-slow and election-fuelled frantic. Barcelona's politicians also accuse Madrid of not pushing France hard enough to help link their AVE line to France's TGV network. Neither Madrid nor Paris, they say, is much interested in making life better for Barcelona.

Even on the limited Madrid-Lerida stretch, test runs have been less than silky-smooth. The line should have been working by last December. In fact, promotional tours began only in February—and were rapidly halted. Ordinary trains running at 200kph (125mph), not the promised 350kph, were used, security signals did not work, overhead cables snapped. At one point near Saragossa, which lies along the line, a huge subsidence in March left the rails suspended in mid-air. The risk of subsidence was well known, but engineering needs had been overtaken by electoral ones: the new AVE station at Saragossa was hastily inaugurated ahead of Spain's local elections, held on May 25th, without any high-speed trains in sight.

Yet Spanish dreams of a national network of AVE lines may be realised. The Seville line was initially derided as “the train to Africa” that no one would use. Cynics noted that Seville was the home town of the then prime minister, Felípe González, and recalled how Spain's very first railway ran from Madrid to Aranjuez, enabling the then Queen Isabel IIto have fresh supplies of her favourite fruit, Aranjuez strawberries. Today, the Seville-Madrid AVE, with a travel time of less than 2½ hours, is a roaring success. It swiftly won the war with the airlines—as the Barcelona line, promising 2 hours 40 minutes from end to end, surely will, say the grim-faced Catalan businessmen queuing up to fly by the shuttle to the capital. The Seville line carried 6m passengers last year. The trains are punctual, clean, highly

profitable—and safer, to date, than the ordinary old lines: at least 21 people died in a horrific collision this week near Albacete, in the south-east.

The AVE has also breathed life into towns along its route. Today towns on the northern route, such as Guadalajara and Saragossa, capital of Aragon, and Lerida await the same effect; the Aragonese dream of making Saragossa a transport hub for all of northern Spain. The new *euro*7.5 billion ($8.6 billion) line is due to open in 2004, but will it? The Catalans are still arguing with Madrid about the exact route and the halt at Barcelona's airport.

And the French link? It was thought that a new line, including 8km of tunnel under the Pyrenees, could join Barcelona to Perpignan, 160km away, by 2005. Now 2009 is the best hope. But a Franco-Spanish consortium has yet to reach agreement with the two governments on how to finance the *euro*700m tunnel.

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Latvia and Russia

Self-strangulation

Jun 5th 2003 | VENTSPILS
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Russia's pipeline monopoly is making its last bid for survival

WITH neat but deserted streets and a meagre row of shops in the centre, Ventspils does not look much like Latvia's richest town. But until a year ago nearly one-eighth of Russia's oil exports were piped to its port, helping make Ventspils' GDP per head among the highest in the country. Then Russia's state pipeline monopoly, Transneft, began reducing the oil flow. This February it shut the oil off altogether.

Transneft claims that its trunk pipeline cannot carry enough oil to fill its three branch pipes—to Ventspils, the Lithuanian port of Butinge, and the Russian port of Primorsk. But while refusing to spend the $143m needed to upgrade the trunk pipeline, Transneft is putting $1.2 billion-1.5 billion into more than trebling the capacity of the Primorsk branch. And the oil still flows to Lithuania, where Yukos, a Russian oil company, owns a big stake in the refinery.

Not surprisingly, Latvians think Russia is bullying them again. It has made trouble before, over Latvia's entry into NATO and its insistence that ethnic Russians and other Russian-speakers—38% of the population—take language tests and pay naturalisation fees to get citizenship. Now Russian-speakers are up in arms because all high schools must teach 60% of classes in Latvian from September next year, even though most already partly do so. The popular theory is that Russia is strangling Ventspils so as to force Latvia's government to give Transneft its remaining 39% stake in the oil-pipeline company.

That may be Transneft's goal (it says not); or it may just prefer the security of a port on Russian soil. Either way, the Russian government seems at odds with the company rather than behind it. Having previously protected the monopoly, in April it gave Russian oil firms, which chafe at Transneft's limited capacity, a provisional green light to build private pipelines.

Transneft is likely to lose the Ventspils fight too. Though Latvia says the oil blockade has so far cost it $200m, or 2.5% of GDP, growth is still strong and Ventspils' port has plenty of other business. In the long run, economic independence from neighbouring Russia could be just what little Latvia needs.

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Charlemagne

Europe's heavyweight weakling

Jun 5th 2003
From The Economist print edition

Will a sick Germany continue to carry the rest of Europe?

"WE MUST get used to the idea that in future there will be one country in Europe that will be stronger than all the rest," said Margaret Thatcher glumly in 1990. In the aftermath of the fall of the Berlin wall, Germany did indeed seem poised to emerge as the new Europe's unrivalled powerhouse. The renovation of eastern Germany would, it was assumed, give a huge stimulus to the country's economy. In addition, the newly-capitalist countries of central Europe would provide German industry with a new hinterland. And with the adoption of a single European currency, agreed upon in 1992, Germany would be able to lock in its competitive advantages. No longer would Europe's weaker economies be able to devalue their way out of competing head-on with Germany's industrial juggernaut.

More than a decade later, all this looks pretty foolish. Germany is now the sick man of the European Union. Since 1996 it has averaged growth of just 1.1% a year compared with 2.2% in the euro zone as a whole. For almost three years the economy has barely grown at all. A country which boasted unemployment of just 150,000 in 1970 may have 5m out of work by the end of the year. And Germany, which insisted that all countries adopting the euro should never run a budget deficit of more than 3% of GDP on pain of large fines, broke the 3% limit itself last year. Goldman Sachs, an investment bank, reckons that the deficit this year could top 4% and is likely once again to breach the 3% limit in 2004. That, if the law were strictly applied, could cost the country a fine of billions of euros, payable to the EU.

Germans are struggling to understand what is going on. Despite the renewed urgency with which Gerhard Schröder, the chancellor, is promoting economic reform, some of his compatriots continue to deny there is a problem. Life still looks pretty good on a sunny day in a city like Frankfurt or Munich. The autobahns are filled with BMWs; the shops and airports are busy. The figures show that Germany's is still the third largest economy in the world; the country is still richer per head than the EU average. But the gap is narrowing fast, and there is a growing sense of unease. Students with good degrees from top universities cannot find jobs; big companies are folding; the banks are under strain; and the pensions system is approaching crisis.

The trouble is that even those who agree that there is a problem cannot agree on its main source. Broadly speaking, there are three potential scapegoats: eastern Germany, the German welfare state and (sotto voce) the EU. Most Germans acknowledge that reunification was handled in a way that inflicted maximum economic damage. By translating the wages and welfare system of West Germany wholesale to the east, the politicians managed to saddle the west with huge bills while making the east hopelessly uncompetitive. But while many say that the main reason for Germany's malaise is the burden of the east, others say that the true source of the "German problem" is the complexity and generosity of the welfare state, which meant that average growth rates were already falling noticeably in the 1980s. Lavish benefits are funded by high payroll taxes, which discourage job creation and so increase the number of people who rely on benefits.

Almost all politicians now acknowledge the need for structural reforms but few are prepared to discuss a third possible explanation for Germany's economic weakness: the euro. By contrast, commentators outside Germany often identify at least three ways in which the German economy has been hit by monetary union. First, Germany appears to have joined the euro at an uncompetitive rate, making German products relatively expensive. Second, the single interest rate for euroland is too high for Germany, which, according to the IMF, is now threatened by deflation. Finally, the effort to abide by those fiendish budgetary rules is forcing the government to cut government spending, just as the economy slides into recession. To add insult to injury, Germany is the largest financier of the EU, the very institution that is now threatening to fine the country for its profligacy. Indeed, the *euro*9.8 billion ($10.4 billion) that Germany contributed to Brussels's coffers in 2002 would have made a sizeable dent in the German deficit of *euro*76.2 billion that year.

In many a country this catalogue of woes would provide ample fuel for a populist backlash. But not in Germany. Partly that is because the economics are complicated: cause and effect are often hard to disentangle. But it is also because Germany's traditional belief in the virtues of European integration is so deeply entrenched that it is almost politically incorrect to question the merits of the single currency. Prominent private-sector economists tend to talk only off the record when they express scepticism. One reckons that there is still a 25% chance that the euro will fail, adding mischievously that he believes that the Bundesbank has secretly kept an entire money supply's worth of marks in storage, just in case it ever became necessary to reissue the old currency.

Whisper it softly

Even when criticisms of the euro are aired publicly, they tend to be couched in very careful language. In a lucid exposition of Germany's economic woes, Hans-Werner Sinn of the Ifo institute in Munich points out that the creation of the single currency has wiped out a competitive advantage (relatively lower interest rates) that German companies used to enjoy over their European neighbours. But he then adds: “The beneficial effects of a unified European capital market cannot be questioned by a good European, even if Germany is unable to profit from it.”

Mr Schröder has often said that his goal is for Germany to become just a normal country. But the German willingness to accept unquestioningly the burdens of being a “good European” remains distinctly abnormal—a state of affairs that its European partners have good reason to give thanks for.

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Tony Blair and Iraq

Those damned elusive weapons

Jun 5th 2003
From The Economist print edition

The row over Iraq's weapons of mass destruction is getting worse for Mr Blair

Get article background

WHEN Tony Blair pitched up in southern Iraq last week to show his gratitude to British troops and hug some liberated Iraqi children, it should have been a moment of vindication—low-key, modest, but the kind of photo-opportunity that political leaders dream about. Instead, wherever Mr Blair went, he was dogged by reporters with only one thing on their mind: where were the weapons of mass destruction that the prime minister had repeatedly promised would soon be discovered?

The speed and success of the military campaign had quietened British critics of the war for while, but they are now rampant again. Most people, even those who were sceptical about the imminence of the Iraqi threat, had thought that by now some weapons of mass destruction would have been unearthed.

Mr Blair certainly did. Before the invasion he had confidently asserted that once coalition troops showed up in Baghdad, rejoicing Iraqis would promptly lead them straight to the smoking-gun evidence he knew was there. Instead, all that has been found so far is a trio of dodgy-looking lorries that optimists (Mr Blair included) think could be the mobile weapons laboratories Colin Powell, the American secretary of state, made famous during his presentation to the United Nations.

Until the middle of last week, this was merely a bit embarrassing for Mr Blair. Everybody understood that Iraq was bigger than France and that Saddam Hussein was very good at hiding things, not least himself. In time, Mr Blair might well still be proved right.

But Mr Blair is no longer getting the benefit of the doubt. The first blow to his credibility came from Donald Rumsfeld. Unconcerned, as usual, by the damage his musings would do in London, the American defence secretary reflected that WMD could never be found after all because they might have been cunningly destroyed by Mr Hussein before the war. Quite what strategic goal such a move would have served was left unexplained—though that question also applies to Mr Hussein's failure to comply with UN resolutions, which looks bizarrely suicidal if he either had no WMD or planned to destroy them.

The second blow to Mr Blair's credibility came from closer to home. There have been rumblings of unhappiness from the intelligence service for some time about the role the government expected it to play in the run-up to war. This week a nameless but apparently senior MI6 officer claimed that Downing Street had deliberately “sexed up” carefully calibrated intelligence reports. In particular, Mr Blair stood accused of misleading the House of Commons by saying that Iraqi WMD could be launched within 45 minutes. The disgruntled leaker claimed that the intelligence for this came from only one uncorroborated source—one which the Joint Intelligence Committee had been reluctant to validate.

The narrow charge was that the Downing Street spin machine (aka Alastair Campbell, Mr Blair's head of communications) had bent the intelligence reports to win over doubters on the Labour benches. The broader charge, which was made last weekend in graphic terms by a vengeful Clare Short (the recently departed international development secretary), was one of the most serious it is possible to make: that the prime minister had knowingly led his country to war on a false pretext. According to Ms Short, the prime minister had “duped” the cabinet; Robin Cook, a former foreign secretary, who had resigned before the war, added that the government had committed a “monumental blunder”.

Perhaps a little too insulated during the G8 meeting in Evian from what was going on at home, Mr Blair seemed not to understand fully how much trouble he was in. His insistence that he stood “100%” by the evidence the government had produced sounded increasingly hollow, even to many of those who had

backed the war.

Returning to London midweek, Mr Blair was forced to recognise the seriousness of his position. He conceded in a statement to the House of Commons that its Intelligence and Security Committee (ISC) would investigate precisely what information the intelligence service had given to the government about Iraq's illegal arsenal. At the same time, the government launched a ferocious attack, led by John Reid, the splendidly menacing leader of the Commons, on what it described as leaks by “rogue elements” within MI6.

Will these ploys work? The suggestion that “rogue elements” in the intelligence and security services are up to “skulduggery” reflects real government anger over the leaking, but it is also a little too obviously designed to play well with Labour MPs who remember the unsubstantiated claims in the book “Spycatcher” by Peter Wright, a disaffected agent, that there had been a plot within MI5 to bring down the government of Harold Wilson.

As for the parliamentary inquiries, the ISC operates behind closed doors and reports to the prime minister. It may be diligent, but it cannot be transparent, which is what people now want. The foreign affairs select committee, under the chairmanship of Donald Anderson, a widely trusted Labour MP, has announced that it will conduct a more independent investigation, but it can only request critical intelligence material, not demand it of right.

Pressure to hold an independent judicial inquiry is mounting. The government is determined to resist, but the congressional inquiry getting under way in Washington will not help it. American committees are more powerful than British ones. Americans may not be as worried as Britons about the legality of the war, but the House of Commons is likely to watch with envy their representatives' ability to hold the executive to account.

Just how much trouble Mr Blair is really in is still not clear. The belief that Downing Street spun the intelligence material is widespread. Mr Campbell and his team, who in February tried to pass off a plagiarised student thesis as intelligence material, have “form”. But even though many Labour MPs are uneasy, the main agitators are still those who opposed the war in the first place. Although the Tory leader, Iain Duncan Smith, has now decided to support calls for a judicial inquiry, having talked up the Iraqi threat himself he may not have been too disappointed when a Liberal Democrat motion calling for one was defeated on June 4th by 98 votes.

Whether or not there is an independent inquiry, it seems fairly clear what really happened. Mr Blair genuinely believed there was a threat from WMD and he welcomed any information that bolstered that belief, whatever its pedigree. Like the barrister he is, he used everything he could get to support his case.

Mr Blair will survive, but, unless those weapons are found, he will pay a price: people will be less inclined to believe what he says in the future.

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War crimes allegations

Bad apples

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The reputation of Britain's soldiers, like that of its politicians, is in jeopardy

AP

Most of our boys are nice boys

BRITAIN, not unlike other countries, tends to mythologise its armed forces. In the public imagination, “our boys” fight wars not only proficiently, but also in a spirit of decency and fair play (in mild contrast to the trigger-happy Americans). Such patriotic reverence helped to neutralise British doubts about the morality of the war. The reality, of course, is that British troops haven't soldiered impeccably in the past, and they didn't in Iraq.

It emerged last week that the Ministry of Defence has launched an investigation after an 18-year-old squaddie tried to process incriminating photos, apparently taken in Iraq, at a shop in Staffordshire. One snap reportedly shows a bound and gagged Iraqi suspended from the fork of a forklift truck. Others are said to depict sexual abuse. The shop's alarmed staff called the police, and the soldier, a Fusilier, was arrested. Two others from the same regiment have been sent back to their German barracks after the alleged beating of POWs. The government promises severe punishment for anyone found to have violated the rules of war.

As Steve Crawshaw, of Human Rights Watch, says, one of the alarming aspects of the incident is the collusion implied by the photo-taking: several soldiers were involved. It follows other, unrelated, accusations made against Lieutenant-Colonel Tim Collins, a short-lived pin-up of British martial prowess and magnanimity, whose treatment of Iraqi prisoners and civilians is still under investigation. The deaths of two other Iraqis while in the custody of the Black Watch regiment are also being scrutinised. Amnesty International says that Iraqis have made more (so far unsubstantiated) charges of abuse against both British and American soldiers.

Shocking as all this seems, it ought not to be entirely surprising. War has always brought out the worst in some men (even if there were no embedded reporters around to witness it), and others have taken home mementoes of their barbarity. There is a difference between rash actions in the heat of battle and malfeasance after it; but it can be harder than civilians realise for soldiers to switch into less belligerent mode when the fighting is over. The regiment to which the teenager implicated in the photo case belongs, part of the 7th Armoured Brigade or “Desert Rats”, fought in the capture of Basra.

For all that, it will not be good enough to say that any offenders are merely a handful among around 45,000 troops deployed to help oust Saddam Hussein. Their conduct will reflect on their officers on the

ground and on those who trained them, as well as on the trauma of combat.

Hew Strachan, professor of the history of war at Oxford, traces the British army's noble image to two sources: the heroic war films of the 1950s, which helped to eclipse the debacles of the first world war; and a more recent notion that honour and professionalism enable “our boys” to punch above Britain's weight. Official footage of Iraqi POWs receiving humane treatment at British hands helped to burnish this image, especially amid rumours that Iraq had executed some British captives. Combined with what has emerged about Britain's use of cluster munitions in built-up areas, these war crimes allegations create an impression that the conduct of the conflict, like its putative cause, may not have been all it was cracked up to be.

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GM crops

Frankenfoods v Luddites

Jun 5th 2003
From The Economist print edition

Greens may squawk, but bio-engineered crops are coming

Get article background

“GM NATION?” No, thanks. Few people have a kind word for the government-sponsored debate on genetically modified crops that kicked off in Birmingham on June 3rd. Scientists complain that it gives a platform to Luddites, paranoiacs and assorted fuzzy thinkers. Green pressure groups argue, loudly, that the whole thing is a smokescreen. They reckon the offending seeds will soon be planted, and no arguments—or evidence of popular disquiet—can do anything about it.

Both sides are right. The debate is an unholy mess—hardly surprising, since the government cannot decide what it thinks. Michael Meacher, the environment minister and an isolated GM sceptic, appears to be using the green lobby to leverage his own position. He has insisted that the public must be consulted on such technical issues as whether GM technology poses a threat to the organic food industry. Yet Mr Meacher and his friends are doomed. Like it or not, Frankenfoods are coming.

Under European regulations, the government can object to the planting of GM crops only if it can prove they pose a threat to human health or the environment. Its verdict, expected later this year, will be based mostly on farm trials. Vague concerns about jumping genes, unknown unknowns and the ethics of “playing God”—traditional arguments against genetic meddling—won't matter.

Anti-GM activists are still planning to make a lot of noise at the debates, though. Their stock went up in mid-May, when the United States, cloth-eared as ever to the niceties of European sentiments, filed a restriction-of-trade lawsuit with the WTO. They are now worrying away at the issue of labelling, with some success. The European Parliament has backed a proposal to require the tracing of all transgenetic ingredients. And organic farmers are insistent that their products must be protected from the slightest whiff of GM pollen.

The danger of modified crops (particularly oilseed rape) seeding in nearby fields has been overstated. At the moment, two types of rape are grown—the normal stuff, which goes into cooking oil, and a high erucic acid variety, which is useful to heavy industry but poisonous to people. Producers seem to be able to keep the nasty stuff out of the food chain, so it seems reasonable to suppose they can separate GM from organic produce.

Indeed, perhaps the greens' biggest problem is that the new crops do not seem as scary as they did four years ago, when tabloid newspapers fomented a public-health panic. JRA Research, a polling group, found last year that 41% of people agreed that “I am not bothered about genetically modified or GM-free”—up from 29% in 2000. In the interim, stem-cell research has familiarised Britons with the notion of tweaking nature, and the good it can do. And GM technology has moved on, to encompass more genuinely worrying stuff like glow-in-the-dark fish and salmon that grow at five times the normal speed.

For three heady years, between 1996 and 1999, customers at Sainsbury's were able to buy purée emblazoned with the label “made with genetically modified tomatoes”. Given government approval, such products will reappear on the shelves next year. They should be cheaper than their competitors—though with food so cheap already, customers will not break down the doors to get at them. They may carry boasts of reduced herbicide use (but environmentally conscious consumers are likely to reject them out of hand, anyway). In time, though, apathy and parsimony are likely to prevail. Monsanto will win.

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City of culture

Liver and gravy

Jun 5th 2003 | LIVERPOOL
From The Economist print edition

Rejoicing in Liverpool

Get article background

IT IS, by common consent, the best thing to have happened to Liverpool since the Beatles. On June 4th the city won a glitzy Euro-prize, the title of European Capital of Culture in 2008, beating five other British cities on this year's shortlist.

At first sight it seems a bit nebulous. There are no big grants attached to the prize—in effect a fancy label valid for a year. Even the most ardent defenders of this year's title-holder, Graz in Austria, would be hard pressed to prove that it had made an indelible mark on the continent's cultural consciousness.

But for Liverpool, notorious for industrial and political militancy in the past 30 years, and scarred by the economic decline they caused, the award marks a huge symbolic break with the past. That certainly proved the case with the last British city to hold the prize, Glasgow in 1990. Backed by a smiley face saying “Glasgow's miles better”, the popular stereotype of a crumbling concrete hell-hole infested by razor-wielding gangsters gave way to a recognition of the city's strong artistic and musical achievements.

Now it is Liverpool's turn to showcase all the advantages that history, geography and generous dollops of public funds have given it. As well as new museums and art galleries, the programme for 2008 includes a big astronomy festival, arts events for the deaf and disabled, and jamborees to mark the city's links with China and Africa (slave trade delicately included).

All that should bring in, the city estimates, 1.7m extra visitors, 12,000 jobs and £2 billion ($3.3 billion) in extra investment. It will also make it easier to sell the idea of living in the city to talented outsiders. “When people come they usually stay—the problem is getting them here in the first place,” says Drummond Bone, vice-chancellor of the city's main university.

Why did Liverpool win? The city's bid was impressive, stressing popular participation (not a strong point when Glasgow won). Other contenders, such as Birmingham, Oxford and Cardiff, have little or no image problem to overcome. The judges probably thought the prize would do most good in Liverpool. It certainly rewards the efforts of the new generation now running the city. According to Alan Smithies, headmaster of Parklands, a big school in Speke—the most deprived area in the region—the people in charge of Liverpool used to be “mediocrity personified”. Now, he says, there are “leaders popping up all over the place”.

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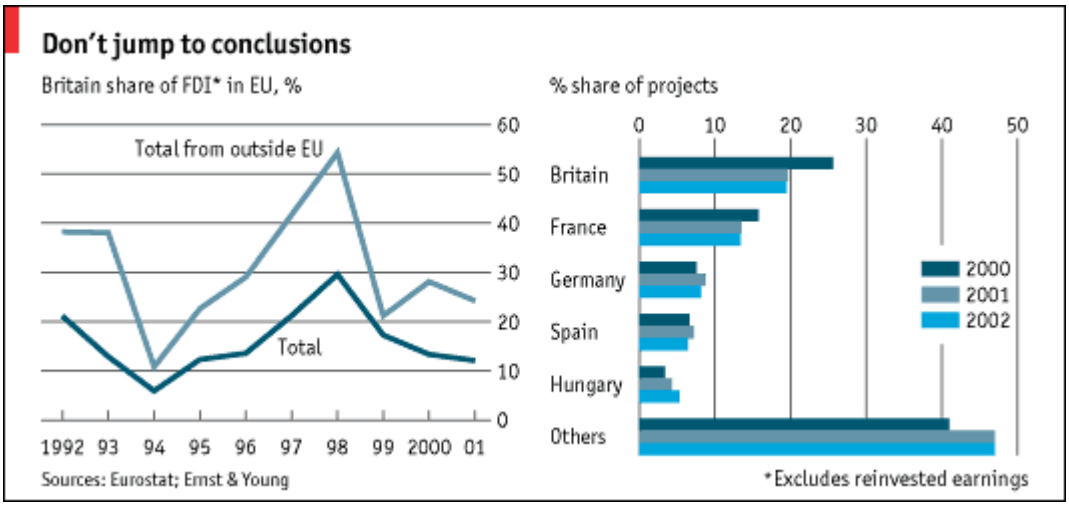
Inward investment

Down but not out

Jun 5th 2003
From The Economist print edition



Britain's ability to attract foreign firms depends on more than joining the euro

ONE of the biggest worries about Britain staying outside the euro is the impact this will have on inward investment by foreign companies. This issue features in one of Gordon Brown's five tests on whether Britain should join the euro: the impact on overall long-term investment. Foreign firms are sought after not just because of the capital investments that they make but because they ginger up the economy by introducing new technologies and good managerial practice.

Ahead of the chancellor's assessment on June 9th, pro-euro campaigners have accordingly been making much of Britain's declining share of foreign direct investment (FDI) in the European Union (see chart). The fall since 1998, the year before the launch of the euro, suggests—to pro-euro advocates at any rate—that Britain is already paying a price for keeping the pound. Foreign companies are shunning Britain because of the extra currency risk they face compared with locating in the euro area.

But this is too convenient a judgment. Britain's share of inward investment fell sharply in the mid-1990s, only to recover very sharply at the end of the decade. And while national shares of inward investment may fuel the euro debate, it is the actual flows of money that affect the economy. In absolute terms, global flows of FDI rose dramatically to reach an all-time record in 2000. So, although Britain's share of total FDI in the EU fell in 2000, the actual money flowing into the country jumped by 44% to a record £78.5 billion (equivalent then to $117 billion): a strange form of punishment. Indeed Britain's share of FDI would have been even higher if its own companies had not been so active in the EU—for example, through Vodafone's £102 billion purchase of Mannesmann, a German telecoms company, in 2000.

It is only in the past two years that FDI has been falling in absolute terms in Britain. But this decline has little to do with staying outside the euro: inward investment has fallen everywhere since 2000. The main reason is the collapse of the cross-border takeover boom that led to the explosion of FDI at the end of the 1990s.

Most people assume that FDI is greenfield investment—new factories springing up on virgin soil. Sometimes it is, but mostly it is a purely financial flow that arises when foreign companies acquire stakes in domestic firms. Not only are such mergers and acquisitions (M&A) highly volatile, they also affect flows of FDI into Britain more than those into other European countries. Foreign firms find it easier to enter the British market than other European countries because more of Britain's companies are publicly quoted and there are fewer obstacles to acquiring them. So the decline in the takeover boom has hit Britain

harder than other countries, just as it gained on the upswing in the late 1990s.

An alternative way of measuring the involvement of foreign companies is to exclude M&A and to look at actual projects on the ground. Using this approach, Ernst & Young, an accountancy firm, reported this week that Britain remains the top location both in the EU and in a broader Europe that includes the ten accession countries in eastern and central Europe, due to join the EU next year. Britain's share of inward investment into wider Europe is declining but so, too, is that of the rest of the EU, because more is going to the accession countries. “Overall economic factors matter more for inward investors than membership of the euro,” says Barry Bright, head of location advice at Ernst & Young.

Joining the euro would probably help to promote both inward investment and overall investment—but only if Britain's economy has sustainably converged with the euro area. As Rick Wagoner, chief executive of General Motors, said last month when announcing an £80m investment in Britain, it is not a do or die issue.

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Nuclear power

A short half-life

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The woes of British Energy are good news for taxpayers

LAST year British Energy, which produces a fifth of the country's electricity, had to ask the government for a £650m loan to stay afloat. This week, it reported a loss of £4.3 billion, including a £3.7 billion write-down on the value of its nuclear reactors, blaming its woes on the 40% fall in electricity prices since privatisation. The company warned it might become insolvent. Critics, such as the GMB union, took the opportunity to point out the folly of privatising Britain's nuclear industry, and demanded a return to public ownership.

It will probably come to that. But selling the nuclear industry was in many ways the most successful privatisation of the lot, though shareholders might disagree. The government's sale of British Energy in 1996 exposed quite how uneconomic nuclear power was; its transfer to the private sector improved efficiency out of all recognition; and, most important, taxpayers have been saved many more billions of pounds of wasteful spending on nuclear power.

Most of British Energy's “assets” are seven advanced gas-cooled reactors (AGRS), which were used in preference to cheaper reactors solely because they were British. The first reactor, in Dungeness, opened in 1987, 22 years late, and hugely more expensive than planned. Britain's nuclear industry cost some £50 billion in total to build. The technology was also so bad that the reactors could operate only a third of the time. “With Concorde, AGRs were one of the worst investment decisions since the war,” says Dieter Helm, an economist.

After it was privatised, British Energy managed to get its reactors working 80% of the time. But the liberalisation of energy prices, and the resulting fall in electricity prices, put paid to profitability: to make money, nuclear generators needed long-term monopoly contracts or state support. British taxpayers should be grateful that the travails of British Energy have made this so much clearer.

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Public services

The parable of the unwise spender

Jun 5th 2003
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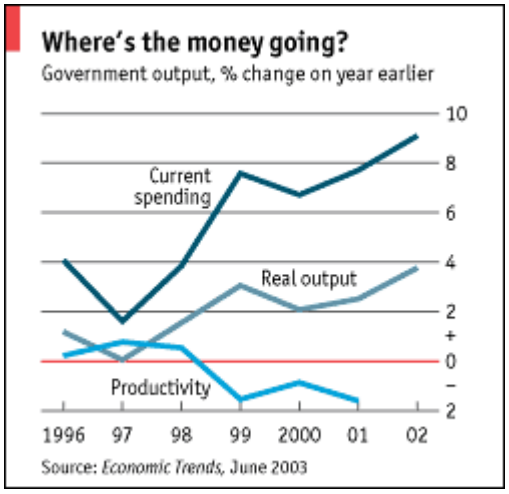
Official figures show rising costs and falling productivity



"NEW LABOUR will be wise spenders, not big spenders": that was the promise the government made in its 1997 manifesto. Half way through its first term, it changed tack and decided to be a big spender after all. And, on the evidence so far, it is not proving to be a wise spender, despite the talk of reform and the barrage of targets.

A new analysis of government expenditure from the Office for National Statistics shows that much of the money pouring into the public services is being gobbled up in rising costs. But higher wages and more spending on other inputs are not making workers more productive. Quite the reverse: the public sector is becoming less efficient.

As a result, the actual volume of government output has risen only modestly. Between 1997 and 2002, spending on public services rose by 40%. However, the volume of output increased by only 14%. Last year, for example, total spending on public services rose by 9%, but real output rose by less than 4%.

Much of the money is disappearing into the National Health Service, which is living up to its reputation for absorbing cash without trace. In 2001, for example, health spending rose by 11%, but health-service output increased by only 3%. Even allowing for possible quality improvements that are not being picked up in the output measure, the gap is an arresting one. And since health spending accounts for a third of total expenditure on public services, it is dragging down the whole of the public sector.

According to the government, the NHS has now turned the corner and the money being poured into it is resulting in real advances. The waiting list for hospital operations has, for example, fallen below a million for the first time in ten years. The NHS is also cutting maximum waiting times for operations. The conclusion that Sir Nigel Crisp, chief executive of the NHS, draws is that "the resources and reform are biting".

But a report this week from the Audit Commission documents an array of quick-fix measures—like the use of hospital maintenance funds on patient care—that are likely to jeopardise longer-term improvements in the NHS. It says that the government has imposed too many targets, which can become "obstacles to change" if they are seen as inappropriate. The commission's auditors think that better management of resources, rather than more resources, is the key to cutting waiting times in hospitals.

With the next election due by 2006, the government now has at most three years to deliver better public services from its huge spending spree. It will undoubtedly be able to point to some improvements by then. But on the evidence to date, it will be hard-pressed to argue that taxpayers are getting value for money.

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Employers' liability insurance

Cheap at twice the price

Jun 5th 2003
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There is much fuss about the rising cost of employers' liability insurance

IT LOOKS, on the face of it, an open-and-shut case of small businesses being gouged by rapacious insurance companies. Premiums for employers' liability (EL) insurance—which they must carry in case employees are harmed at work—have risen sharply over the past couple of years. They rose by 50% last year, and will probably go up a similar amount this year. So loud have small businesses' complaints become that this week the government published not one but two reports to see what might be done.

There is certainly a case for taking a hard look. The Federation of Small Businesses points to the example of one of its members, which hasn't claimed in 30 years. Its premiums trebled last year and rose by another 450% this year. Some businesses, it says, have been bankrupted by the cost of their insurance. Others—7%, according to the Department of Trade and Industry, or twice that, according to Axa, an insurance company—solve the problem by failing to buy the cover the law requires, leaving workers exposed. Small companies in building and scaffolding can search in vain for cover at any price.

But the problem is not that small businesses are being exploited by a greedy insurance cartel. Apart from a few obviously silly cases, premiums are rising to reflect the risks run by insurance companies. Insurance companies have long lost money on underwriting and made this up on the stockmarket. A falling stockmarket means that they can no longer do this, so they have to charge more. Risks have anyway gone up: between 1996 and 2002, the cost of the average claim tripled. Moreover, insurance companies have had to increase prices because of an increase in potential “long-tail” risk for work-related illnesses, such as from exposure to asbestos.

Yet despite the recent increase, one of the striking things about the report issued by the Department of Work and Pensions (DWP) is how cheap British EL insurance is by European standards. In 1999 EL insurance accounted for 0.2% of payroll costs in Britain, compared with 1.3% in Germany, the next lowest. Italy's was the most expensive, at 3% of payroll costs, though how many companies pay it is another matter. Costs have risen in Britain since then, but they have elsewhere, too.

The Association of British Insurers reckons that costs overall of work-related injuries (not just to insurers, but to employees, for example) is £6 billion a year. Some £1.27 billion of this is in insurance costs. The ABI will shortly issue a report looking at alternative models to the British one, which are more or less generous to beneficiaries. Even in the most frugal alternative, insurance costs would be £1.43 billion—and in its most generous one £3 billion. In short, premiums would be higher still.

The government could bring down premiums by taking over long-term health risks, which are unquantifiable and hard to price. The DWP is at least studying this. Then there is the 5% tax on insurance renewals that currently brings the Treasury about £2 billion a year and rises as premiums do. Oddly, the DWP is not thinking about scrapping this.

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Bagehot

Charles Clarke fails the test

Jun 5th 2003
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The education secretary is in trouble after only nine months in the job

MUCH as the prime minister may resent the row over those frustratingly undiscovered weapons of mass destruction, for Charles Clarke, the education secretary, the timing could hardly have been kinder.

With schools returning from their half-term break, teachers across the country are discovering how many of their number are to be made redundant at the end of the term: present estimates indicate that it could be at least 800. But the real picture is much worse: there will be many unfilled vacancies, while support staff on short-term contracts will quietly disappear.

The result will be larger classes and more pupils sent home early. It's a field day for local newspapers in the most affected areas, but, consolingly for Mr Clarke, at least the national media now has other things on its mind. Next week, with any luck, the euro announcement should keep Mr Clarke's lugubrious features off the front pages for a few more days.

For otherwise, fate has not been kind to Mr Clarke just lately. Although there are some worthy rivals, nowhere in government does the guiding principle of Murphy's law—if it can go wrong, it will—adhere with quite such tenacity as it does at Mr Clarke's Department of Education and Skills.

The latest blow is the result of some nifty digging by Damian Green, Mr Clarke's opposite number. In 1998, the government promised to cut truancy by a third. Since then, it has devoted £650m ($1.1 billion) to its campaign—and the number of children skipping school has risen by a third. Meanwhile, Ofsted, the schools inspectorate, issued a less-than-glowing report on another expensive initiative—the government's £800m programme to raise educational standards in inner cities. According to the chief inspector of schools, David Bell, among the 1,000 schools covered by snazzily-named schemes such as “Education Action Zones” and “Excellence in Cities”, “there are rapid improvements in some schools but this is offset by the disappointing progress, or even decline, of others.”

But these troubled schemes are not Mr Clarke's biggest problems. Two issues bother him more. One is the difficulty of selling the idea of £3,000-a-year university tuition fees (while Mr Green brazenly promises to abolish all such charges) to a profoundly hostile Labour Party later this year or next.

The other big issue, and the most pressing one right now, is the crisis over teacher redundancies, for it is destroying Mr Clarke's reputation for competence. It's difficult to explain exactly what has happened, because nobody really seems to understand it, not even the fairly brainy Mr Clarke and his even brainier minister for schools standards, David Miliband. Suffice it to say that Mr Clarke thought that the £2.7 billion of extra funding for this year he had won from the Treasury would be more than enough to meet higher salaries for teachers and increased pension and employers' national insurance contributions. Thanks to a fiendishly complex funding formula under which central and local government channels money to schools, nobody realised until ten weeks ago that it would not.

Mr Clarke was sent to education in October last year as a replacement for hapless Estelle Morris precisely because Mr Blair wanted someone who was big enough and tough enough both to get things done and to manage the inevitable crises when they blew up. But his response to the unfolding disaster in the schools has been at once complacent and confrontational. Without much supporting evidence, he has blamed the local education authorities for sitting on £500m, but has so far done little to resolve matters.

Mr Clarke now talks about using the momentum of the crisis to centralise school funding, cutting the education authorities out of all but the most mundane tasks. This may be perfectly sensible if it means more money going directly to head teachers to spend as they see fit. But the danger is that Mr Clarke will

attempt to enact a complicated and far-reaching piece of legislation in a fit of pique, much as Margaret Thatcher did when she abolished the Ken Livingstone-led Greater London Council.

Gimme a gimmick

Mr Clarke's response to these real difficulties has been a form of frenetic displacement activity. In just the past month these have included “Excellence and Enjoyment—A Strategy for Primary Schools” that panders to the teaching unions by dropping testing of seven-year-olds; and a plan to reform London's failing schools with gimmicky-sounding ideas such as a “London Student Pledge” and a “London Gifted and Talented Centre”.

His latest wheeze, designed to meet Labour's foolish pledge to get 50% of all young people into higher education, is to pave the way for lots of further education colleges to become universities by dropping the requirement that universities should be places where research is conducted. After the Cambridge-educated Mr Clarke's sneery remarks denigrating the idea of university education as a good in itself (as opposed to a tool for economic growth), such a brutally utilitarian view of higher education should come as no surprise.

Despite a bright beginning with his deft handling of the white paper on higher education funding, Mr Clarke seems increasingly to be swept along by a machine that he only nominally controls. It's a machine that exists to come up with politically correct and superficially attractive ways for education secretaries to spend money and which shies away from most of the hard issues that determine what really happens in schools because tackling them involves patiently taking on the educational establishment—of which it is itself a part. If Mr Clarke tried to do less and focused more on the things that matter, he might yet succeed. But it's not very likely. He shows all the signs of being a frightened and ambitious politician in a hurry.

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European business

Grappling with the strong euro

Jun 5th 2003 | PARIS
From The Economist print edition

Many big European firms are surprisingly resilient in the face of the mighty euro

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ON THE elegant Avenue de Breteuil in the heart of Paris is the corporate centre of Michelin, the world's biggest tyremaker. With 40% of its annual sales in North America, surely Michelin is worried by the dramatic rise of the euro against the dollar? Not at all, says the firm. To keep costs down, Michelin does not even routinely hedge its foreign-exchange risks. For much of what it stands to lose when its American revenues are translated back into euros, it will regain because almost all of its raw materials are priced in dollars.

This sang-froid in the face of a fundamental shift in currency values is typical among big European firms. None denies that the euro's strength will cause problems for Europe's economy overall. Indeed, it might even tip the continent into a full-blown recession—a risk that prompted the European Central Bank to cut interest rates on June 5th. But at the big company level, there is a widespread sense that the euro is one problem that can be handled.

Given the dollar's fall of over 20% against the euro in the past six months, Europe's economy will suffer. So why not its big firms? After all, they include Europe's biggest exporters and thus are presumably the most vulnerable to a strong euro. Analysis of a sample of almost 500 European firms by Morgan Stanley showed that about 20% of their revenues are generated in America and Canada, so there is plenty of exposure to the dollar. As a broad rule of thumb, a 10% rise (fall) in the value of the euro against the dollar causes a 3% fall (rise) in European corporate profits, reckons the investment bank.

Many big firms do most of their exporting within the euro zone—Germany's biggest export market is France, and vice versa. And exposures to currency risk vary from sector to sector. Engineers and carmakers are much more exposed to a rising euro than, say, retailers and utilities, which tend to operate more in local markets.

The joy of supply chains

Furthermore, bigger companies tend to have more sophisticated management and operational systems.

Although they were not designed for this purpose, one side-effect of such systems is to lower currency risk. “Many big companies have sophisticated supply-chain models these days,” says Burkhard Schwenker of Roland Berger, a strategy consultant. These can include global procurement systems priced in dollars—an advantage when the euro is strong. In the same way that Michelin benefits because the rubber and carbon black that it uses to make tyres are commodities priced in dollars, so many other firms gain by sourcing their supplies of goods and services in dollars.

Unlike Michelin, many firms do routinely hedge their currency risks using derivatives to lock in a particular exchange rate. A “partial hedge” can come from issuing dollar-denominated debt, which gets cheaper to service when the dollar weakens. Anecdotal evidence suggests that many European firms have increased their dollar loans from the banks that supply over 70% of European corporate debt.

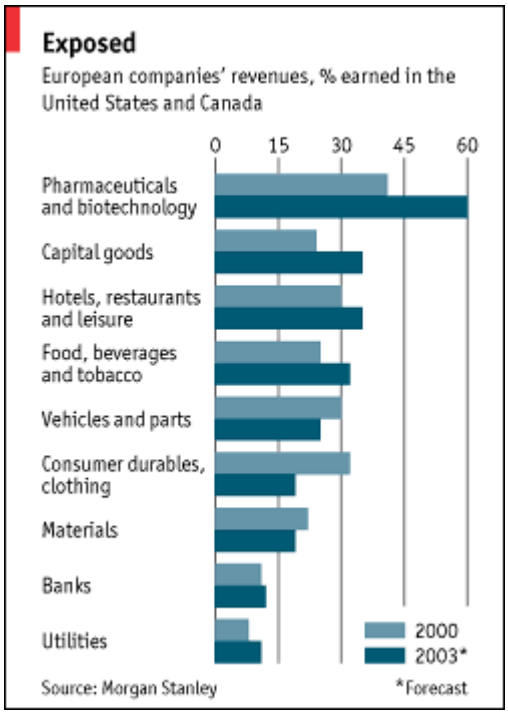
Most hedging is done using standard financial contracts. Consider BMW, for instance. The Munich-based carmaker had sales of *euro*42 billion ($40 billion) last year, of which 31% came from America and Canada, and a further 24% from outside the euro zone. It uses derivatives to hedge its overseas profits fully in each current financial year, and partially for the year ahead.

BMW says that its decisions on where it locates production are driven by market needs, not currency considerations. Yet it has created natural hedges for itself by producing cars in America and Britain. By incurring costs in these markets, it greatly reduces the currency translation problem. It opened a factory in South Carolina in 1994 and will produce up to 150,000 vehicles there this year, largely for the American market. It also makes trendy Minis in Britain, which is handy as a hedge when (as of late) sterling weakens against the euro.

Rival Porsche makes most of its cars in Germany, so its costs are mostly in euros. Yet a large chunk of its revenues come from sales of its sports cars in America. Lacking BMW's natural hedge, Porsche uses financial hedging to minimise the short-term impact of currency swings.

So do other carmakers, not always successfully. Volkswagen recently said that its first-quarter pre-tax profits were *euro*400m less than expected, due to the strong euro. Its hedging programme covered only 40% of its American revenues. Peugeot and Renault, France's two big carmakers, have said that they might suffer profits shortfalls due to currency movements.

Many firms in other sectors have natural hedges similar to BMW's. Big European food and drug retailers derive around one-quarter of their revenues from America and Canada. Helpfully, they mostly incur a similar proportion of their costs there. In effect, they are operationally hedged, with only profits (or losses) requiring translation into euros. They may even benefit from a strong euro as the products they import to Europe become cheaper.



Likewise, other big firms. The more they spread themselves operationally, the more natural hedges reduce their exposure to big currency swings. The Freudenberg Group, based in Weinheim, Germany, has a huge portfolio of engineering and household-materials businesses that produced *euro*3.9 billion of revenues last year, one-third of them in North America. It spreads its production across 44 countries.

There are exceptions to the general relaxation about the euro. The profits of Richemont, a Swiss-based luxury-goods conglomerate, are reported in euros. But its revenues are heavily exposed not just to the dollar, but also to sterling and the South African rand—which have also fallen against the euro. The group reported weak results for 2002 on June 5th, and Merrill Lynch reckons that this year the strong euro will have an even larger negative impact on the firm's results. As the biggest market for its luxury goods is America, and assuming the euro stays strong, if Richemont's net sales were to rise by, say, 16% in dollars compared with 2002, they would fall by 5% when reported in euros.

Also hating the strong euro is Italy's export-driven fashion industry. Its sales are expected to suffer as prices rise outside Europe—either that, or (God forbid) margins will shrink. The industry is also afflicted by falling Asian demand due to the SARS virus. Nothing like a deadly disease to put currency worries into

perspective.

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Accounting scandals

The nine lives of Lou Gerstner

Jun 5th 2003 | NEW YORK
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The last American corporate hero comes under scrutiny

AP

The legend that is Lou

WHY, in an age of fallen corporate idols, does the Lou Gerstner legend endure? As the reputations of other retired hero bosses shrivel, the man who saved IBM strides from one triumph to the next. An autobiography has fared well in a hostile market, and in January the Carlyle Group, a powerful, secretive buyout firm, picked Mr Gerstner as its new chairman. Yet Mr Gerstner's record is by no means squeaky clean. The latest evidence: this week's news that IBM's accounts, from a time when Mr Gerstner was in charge, are under formal investigation by the Securities and Exchange Commission (SEC).

Judging by the skimpy information that IBM has put out, the SEC's interest may be confined to Big Blue's “retail store solutions” business, whose cash registers, bar-code scanners and the like make up less than 1% of annual sales. Yet interest in one area can lead to interest in another. Rival consultancies marvel at the fat, recession-proof margins of IBM's consulting business. Ominously, Wall Street's ever-bullish analysts are making soothing noises.

In the 1990s, along with the likes of General Electric and even—yes—Enron, IBM came to be valued for the fast, steady and remarkably reliable way it raised its earnings per share. Also, like GE and others, the firm's occasional detractors argued that this owed more to its boss's genius for financial engineering than to his legendary management skills. As the boom fizzled, and demand for IBM's hardware and services slowed, these critics said that Mr Gerstner used the usual bag of tricks to cover up the evidence. He extracted paper profits from the corporate pension fund, slashed the firm's tax rate, timed the realisation of profits from asset sales to meet analysts' forecasts, and so on. As for disclosure, one well-timed asset sale (making the firm $340m) was not even mentioned in the relevant quarterly earnings report.

After correspondence with the SEC in 2001, IBM agreed to give more prominence in its reporting to the way its pension funds padded profits. Due, in part, to more generous assumptions about future rates of return, IBM's pension funds that year earned the firm over $1.5 billion—13% of profits. Indeed, about half of the rise in IBM's annual profits in 1996-2001 came from its supposedly overfunded pension funds.

Things have been different since Mr Gerstner's departure. In April 2002, its new boss, Sam Palmisano, issued IBM's first profit warning in ten years. Its tax rate is rising again, and its expectations about the performance of its pension funds have fallen. Indeed, IBM is paying $3 billion to plug a sudden hole.

Yet IBM remains loyal to Mr Gerstner. That may owe something to his intimidating ways: he is still addressed at the company as “Mr Gerstner”, in contrast to his successor, “Sam”. And he does seem to have left the firm in good shape, accounting notwithstanding. But IBM refuses to bow to shareholder demands that it strip pension income from profits when totting up executive bonuses, though GE and Verizon have done so. Meanwhile, much of Mr Gerstner's fortune remains tied up in IBM shares and unexercised in-the-money options. That should be some comfort to investors now wondering what, exactly, the Gerstner legacy has bequeathed them.

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How to fire people

U r sakd

Jun 5th 2003
From The Economist print edition

Is there a nice way?

THERE are, Paul Simon once sang, 50 ways to leave your lover. There may be fewer ways to sack your staff, but most are unpleasant—though rarely as nasty as the method chosen last week by Accident Group, a firm that specialises in personal-injury claims, after Amulet, its Luxembourg-based parent, ran out of money.

Accident Group's 2,500 staff received a series of text messages on their mobile phones, telling them to call a number. There, a recorded message from the company's insolvency administrators at PricewaterhouseCoopers informed them that, “All staff who are being retained will be contacted today. If you have not been spoken to you are therefore being made redundant.”

This may be the nastiest case of workers being fired by text message. But it is not the first time that firing has been nastier than it need be. Wayne Cascio, a professor of human resources at the University of Colorado-Denver, recalls a technology firm whose staff returned from lunch to find that their security cards no longer worked. Paul Sanchez, of Mercer HR, recalls one firm that invited its staff to a conference in Florida. Briefing packs told some to go to Ballroom A, others to Ballroom B. Those in Ballroom A got a presentation on the firm's future; the others were told to go by noon.

Is there a better way? Francis “Tom” Coleman, an American lawyer who recently wrote a book on “ending the employment relationship”, urges bosses to sack staff in private, doing it respectfully and preparing a script of what to say. He says bosses often panic, fearing that dismissed staff may steal valuable information if allowed to linger.

In fact, brutally sacked staff may do more damage than those let go kindly. In America, they may sue for the “intentional infliction of emotional distress”. At Accident Group, the staff promptly ransacked the firm's offices and made off with computers and other equipment.

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Microsoft and AOL Time Warner

A big deal

Jun 5th 2003
From The Economist print edition

A settlement between two old rivals may have great significance

Get article background

SOMETIMES a seemingly modest business deal can change the course of an industry. This is particularly true in high tech. In 1980, IBM licensed an obscure piece of software known as DOS from an unknown start-up called Microsoft—thus creating the conditions for Bill Gates to build the world's largest software firm. Will a settlement announced on May 29th between Microsoft and AOL Time Warner, a huge media conglomerate, one day be seen as the birth of another Microsoft killer application: the platform for delivering music, video and other digital content?

Given recent shifts in strategy by both firms, it is no surprise that the old rivals have buried the hatchet. Gone are AOL's bubbly ambitions to be a force in technology. Its online service is hurting, and most of AOL's former executives have stepped aside. Netscape, an internet pioneer which AOL bought in 1998, may be scrapped altogether. Microsoft, for its part, is focusing more on the software business after many loss-making forays into the media world.

AOL will collect $750m to settle a private antitrust suit it had brought against Microsoft for abusing its Windows monopoly in its fight with Netscape. This is much less than AOL Time Warner's lawyers had expected when they filed suit in January 2002, but nothing to sneeze at for a firm that is struggling to pay down debt of over $25 billion. Also, Microsoft will give AOL a royalty-free licence to its Explorer web browser for seven years, early access to new versions of Windows, and help in distributing software for AOL's online service (which has been losing subscribers lately).

Yet the long-run winner may well be Microsoft. AOL has pledged to explore ways to allow its instant messaging (IM) services to operate with Microsoft's own IM offering—probably solving a long-term dispute between the firms. Moreover, Microsoft has rid itself cheaply of a legal headache and can now focus on the two important outstanding antitrust cases against it. Sun Microsystems, Microsoft's other arch rival, has also filed a private antitrust suit, which will most likely take more than cash to settle. And European trustbusters have yet to issue a ruling in their investigation of the software giant.

But the settlement's most important aspects are not about Microsoft's past efforts to control the web browser market, but rather its future plans in digital media. The deal turns AOL into a potentially powerful ally for spreading Microsoft software for distributing music and video. AOL will get a long-term licence to use this technology. It will also work with Microsoft to solve a huge digital dilemma: how to deliver content online in a way that makes piracy hard, but does not put off consumers.

Given their technical expertise and market clout, both firms could indeed develop such solutions and deploy them widely, thus giving consumers more ways to obtain high-quality content legally. But there is also a danger: that the co-operation with AOL puts Microsoft on course to control the software infrastructure for delivery of digital content. Because of strong network effects, this market (just like PC operating systems) is likely in the end to be dominated by a single vendor.

To be sure, Microsoft now lags behind competitors in digital-media technology, notably RealNetworks and Apple, which recently launched, with its iTunes Music Store, the first online music service that appears to satisfy both content providers and consumers. The firm has sold 3m songs for 99 cents each since it launched the service on April 29th. Also, AOL says that its licence from Microsoft is non-exclusive and that it will still use rival technologies (although many investors have doubts—shares in RealNetworks fell by over 10% after the settlement was announced).

The impact of the agreement will indeed depend on which digital-media technologies AOL decides to use. Unfortunately, the details of the settlement are being kept confidential. Microsoft's competitors can only hope that AOL has thought about all eventualities—as IBM did not with DOS.

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Cancer drugs

Rising nicely

Jun 5th 2003
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Investors in cures for cancer have had a good week, except Martha Stewart

PUTTING money in the stockmarket, like making a soufflé, is largely a matter of timing: pull it out too early, or too late, and the results may well fall flat. If only Martha Stewart, America's star homemaker, had followed the advice she dispenses to millions from the kitchen when making her own investments on Wall Street. On June 4th, Ms Stewart was indicted on securities fraud and obstruction-of-justice charges in Manhattan (see article). This prompted her to resign as boss of Martha Stewart Living Omnimedia, the firm that she founded.

Her troubles relate to her sales of shares in ImClone Systems, an American biotech firm, a day before its cancer medicine, Erbitux, failed to be approved by America's Food and Drug Administration (FDA) due to alleged deficiencies in the design of its clinical trials. Ms Stewart also faces a civil lawsuit brought by the Securities and Exchange Commission. Next week, Sam Waksal, a former boss of ImClone and close friend of Ms Stewart, will be sentenced following his own conviction for insider trading in the firm's shares.

Ironically, the drug at the heart of this mess is now looking rather good. Results from late-stage clinical trials, presented this week to an American Society of Clinical Oncology (ASCO) meeting, showed that Erbitux does indeed improve the chances of survival of patients suffering from colorectal cancer. ImClone shares jumped on the news. Merck KGaA, a German drugs firm which conducted the trials in partnership with ImClone, plans to seek approval for Erbitux from European regulators this summer; Bristol-Myers Squibb, ImClone's American partner, which also suffered from the drug's earlier setback, will probably approach the FDA soon.

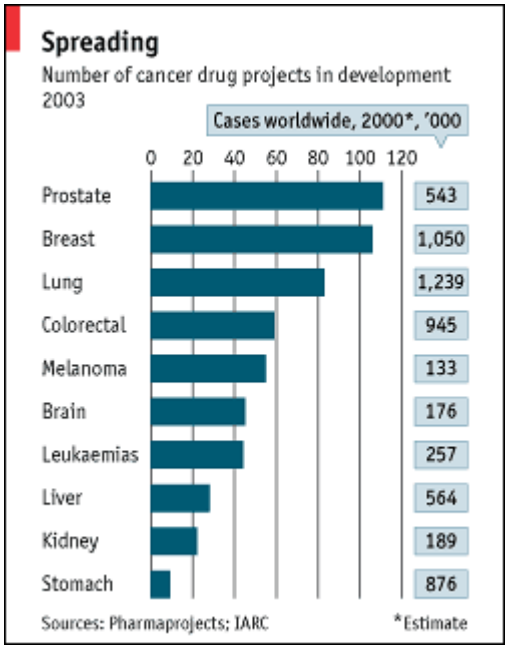
Erbitux was not the only drug with good news at the ASCO meeting. Also doing well was Avastin, a new drug from Genentech, an American biotech firm part-owned by Swiss drugmaker Roche. Avastin is in a new class of “anti-angiogenic” drugs, focusing on a molecule which tumours use to build new blood vessels to support their rampant growth. Having failed in earlier trials to beat breast cancer, Genentech has now shown that Avastin can help treat colorectal cancer. Drugs from Millennium Pharmaceuticals, Telik and OSI Pharmaceuticals also showed promise in treating other forms of cancer.

What all these molecules have in common is the novel way they hit tumours more precisely and (hopefully) more effectively than the traditional weapons at doctors' disposal—nasty cytotoxic drugs and radiotherapy, which hammer both cancerous and normal tissue, causing undesirable side-effects. Many of the new molecules come, not from the labs of Big Pharma, which once dominated the cancer field, but from smaller biotech firms specialising in genetically engineered proteins and gene-based therapies.

There are now at least 700 biotech drugs in development against cancer, and over 1,800 research projects on the disease in companies around the world. Some are already on the market, such as Herceptin (for breast cancer) and Rituxan (for non-Hodgkin's lymphoma), and selling well. Datamonitor, a research firm, predicts that the cancer drug market will more than double, to $45 billion a year, by 2010.

Many big drug firms are doing deals with biotech firms, trying to

find innovative cancer drugs to fill out their pipelines and support their own cancer drugs already on the market. Aventis, a Franco-German firm, this week reported encouraging results using its own medicine, Taxotere, in combination with a gene-based “anti-sense” drug from Genta, an American biotech firm, to treat prostate cancer. Last year, the firms signed a $480m deal to co-develop Genta's drug. Such deals are particularly welcome to biotech firms now that capital is tight in the public markets.



The current upbeat mood in cancer biotech is quite a change from the scepticism rife only a couple of years ago. Yet risks still abound. Cancer is a complex disease, and tumours can respond (or not) to treatment unpredictably. ImClone's problems were in some ways less of an anomaly than its recent success. And, points out Yaron Werber of SG Cowen, an investment bank, even those firms with a good chance of getting their drugs to market face tough negotiations with governments and insurers loth to pay over $50,000 a year per patient for a cocktail of novel cancer drugs.

The sad fact is that none of today's new drugs actually comes close to curing cancer. Erbitux and Avastin buy patients only a few more months of life. Tony Butler, an analyst at Lehman Brothers, says that biotech's day in cancer will be when its drugs can turn a short-term killer into merely a chronic disease, bringing longer life for patients and longer-term revenues to the industry. Let's hope that day is soon.

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Wine

California drinking

Jun 5th 2003 | SAN FRANCISCO
From The Economist print edition

Why a cult $2 plonk has America's wine industry in a spin

WHEN Fred Franzia speaks, America's winemakers tremble—for he is suddenly the uncontested heavyweight of the industry. Mr Franzia is not, however, a dilettante maker of fancy $300-a-bottle Cabernet. His wine, sold under the Charles Shaw label, is rather more modestly priced. Each bottle—of Cabernet Sauvignon, Chardonnay, Merlot or Sauvignon Blanc—costs just $1.99. Hence its affectionate nickname: Two-buck Chuck.

Since it came on to the market last year, Two-buck Chuck has become the fastest-growing wine in the history of America's wine industry. Visit any California branch of Trader Joe's, a supermarket chain where the wine is sold, and you will see stacks of it piled in the aisles, and shoppers carting it away not by the case, but by the carload. (And these are American cars.)

Two-buck Chuck accounted for 15% of the wine sold in California in the first two months of this year, says Jon Fredrikson of Gomberg, Fredrikson & Associates, a consultancy. No single brand, he says, has ever had that kind of market share. It has become a cult wine: the subject of workplace discussions and urban myths. The reclusive nature of Mr Franzia, who made a rare public appearance last week to dedicate a winery, merely adds to the wine's mystique. You have to try it—and then spring it on your friends alongside more expensive wines to see if they can tell the difference.

How does it taste? This correspondent's verdict is: not bad at all. It is similar to the cheap plonk sold in France and other European winemaking countries. The appearance of such cheap wine in America, however, is something new, made possible by an unprecedented oversupply of grapes in California. That oversupply, in turn, was caused by the confluence of several factors, says Mr Fredrikson.

A series of excellent vintages in 1990-97 put Californian wines on the world map, just as scientific research began to highlight the health benefits of wine, and ageing baby boomers started drinking more of it. New vineyards were planted to cash in, a trend that accelerated as dotcom millionaires from nearby Silicon Valley began to invest in vanity vineyards. Vineyard acreage rose by a third in 1997-2002.

Then the recession hit and demand collapsed, just as the new vineyards started to produce viable grapes. The dollar rose, making imported wines cheaper. Bumper crops in the past three years produced a surplus of cheap grapes. Mr Franzia, who anticipated the glut, cut production at his own vineyards and then stepped in to buy the excess grapes at a knock-down price. And so Two-buck Chuck was born.

Mr Franzia's firm, the Bronco Wine Company, brings California's excess grapes to its plant in Napa Valley from all over the state. (The firm's use of the Napa name on its labels is, as a result, currently the subject of a lawsuit.) Bronco owns an efficient modern plant and has its own distribution network, so it can deliver wine directly to Trader Joe's warehouses, which keeps costs down. Bronco is, you might say, the Dell of the wine business.

The success of Two-buck Chuck is a mixed blessing for the industry. It is cannibalising sales of mid-market wines below $10 a bottle, forcing producers to cut prices and prompting other supermarkets, such as Safeway, to introduce discount wines of their own. But at the same time, Two-buck Chuck's low price means it is reaching new markets and changing patterns of wine consumption. Young people are buying it instead of beer, and occasional drinkers can afford wine more often.

So there could be a silver lining. Wine drinkers who start off drinking plonk often graduate to upmarket varieties. The weaker dollar is making fancy foreign wines pricier and domestic wines more attractive in comparison. In the long run, Two-buck Chuck could do California's wine industry more good than harm.

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Fear of China

China crisis

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Li Ka-shing's business is a victim of India's growing fear of its Asian rival

AP

The thwarted Mr Li

SUSPICIONS about the Chinese loyalties of the powerful Hong Kong business family headed by Li Ka-shing have spread from America to India, where some of Mr Li's ambitions are now being thwarted. In April, political opposition in America led to his withdrawal of a bid for Global Crossing, a bankrupt American cable operator. Now Hutchison Ports, part of Mr Li's Hutchison Whampoa group, has been blocked from tendering for a port project near an Indian naval base in Mumbai. Indian cabinet ministers have also deferred raising the foreign direct investment (FDI) limit for capital-hungry telecoms firms from 49% to 74%, apparently thanks to worries about the security risk of giving Mr Li full control over his Indian telecoms joint venture, Hutchison Essar, already a force in India's mobile-phone industry.

In 1962 India was defeated by China in a border war. It still regards its larger neighbour as a long-term military threat, and, without doubt, as an espionage risk. In April, Arun Shourie, the telecoms minister, said in parliament that the security services had found that a Delhi-based internet service provider, a subsidiary of a Hong Kong firm with links to China's intelligence services and the People's Liberation Army, was using technology that could open a “back window” to internet users' PCs. He did not name the firm, but according to a report seen by *The Economist* the target of the security services was Data Access, a Delhi-based internet and telecoms firm that has a joint venture with Pacific Century CyberWorks (PCCW) of Hong Kong, which is controlled by Richard Li, Mr Li's son. Data Access runs a PCCW internet service.

Both Hutchison and Data Access deny that they present any security risk. Hutchison Essar, which co-operates routinely with Indian security services, suspects that media coverage of the alleged risks is being inspired by its rivals. Richard Li is anyway reducing his 49% stake in Data Access to 24%, apparently after a reassessment of investment priorities. Data Access no longer routes its internet links primarily through Hong Kong, and it has changed its diagnostic technology. So if any risks did exist, they have been reduced.

The espionage fear has emerged despite strengthening economic ties between the countries. Bilateral trade grew by nearly 60% in the past year. A government spokesman says that “there are at present no country-specific restrictions applicable to FDI from China.” Indeed, last month SEPCO, a Chinese power firm, was allowed to win a $240m contract in India from Sterlite, a metals firm. But civil servants are extremely sensitive about the matter ahead of a planned visit to Beijing this month by India's prime minister. A committee of senior civil servants is said to be reviewing investment-vetting procedures; even routine Chinese applications may not, in future, have an easy ride.

Indian paranoia has taken hold gradually. In 1999, Huawei Technologies from Shenzhen, in southern China, opened a telecom-software research centre in Bangalore. It was not until 2001 that security fears surfaced, with allegations (which the firm has always denied) that it had worked for Pakistan and for the Taliban. Huawei's operation is a fully owned subsidiary with 50 Chinese among its 600 staff. Its application to open a subsidiary to manufacture telecom-network hardware has not been approved by the Indian government.

When he visited India at the beginning of last year, Zhu Rongji, then China's prime minister, told his hosts that “you are the first in software, and we are the first in hardware. When we put these two

together, we can become the world's number one." India is not so sure. It seems wary of the "back windows" that might open up for its powerful neighbour's high-tech spies—even though, presumably, that could also be a two-way trade.

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Japanese semiconductors

The plain vanilla wafer lives on

Jun 5th 2003 | TOKYO
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Intel gives Japan a shot in the arm

THE last bastion of Japan's commodity-chip sector got a boost this week from the global giant of its industry, Intel. On June 3rd, Intel agreed to invest roughly ¥12 billion ($100m) in Elpida Memory, which was formed in late-1999 as a joint venture between two of Japan's big integrated electronics firms, NEC and Hitachi. The two parents will top up Intel's cash with ¥9.5 billion of their own. Although all of that money will be heading straight to Elpida's fabrication plant in Hiroshima, the news cheered the whole sector across Japan.

The reason is that Elpida is now Japan's last maker of run-of-the-mill dynamic random access memory (DRAM) chips, the commodity semiconductors snapped into PCs. Mitsubishi Electric, another big integrated firm, tossed its DRAM business into Elpida's last year, and Japan's other two integrated giants, Fujitsu and Toshiba, have also quit that business. Many small firms that supply equipment to Japan's semiconductor industry suffered as domestic DRAM output fell. Elpida counts many of them among the 30 firms to which it plans to issue shares this October, to raise the rest of the capital that it needs to expand.

Although Elpida lags far behind the DRAM industry's leaders—Korea's Samsung Electronics and Hynix; Germany's Infineon Technologies; and America's Micron Technology—it still has 4.2% of the market, according to Gartner Dataquest, and hopes to increase that by expanding at Hiroshima. The plant, which fabricates 300mm wafers, makes only 3,000 a month, far too few to remain competitive. With ¥80 billion of investment, says Damian Thong, at Dresdner Kleinwort Wasserstein in Tokyo, Elpida hopes to make some 15,000 wafers a month at the plant by next March.

What of Intel's role? Since leaving the DRAM business in the 1980s, Intel has tried to steer that part of the chip industry in directions that fit its plans. It makes its best margins on high-end microprocessors for the next generation of PCs and servers. So it helps if PC-makers also have a steady supply of DRAMs that meet Intel's standards. Intel is now keen on the second generation of “double-data-rate” DRAMs. Since Elpida is quite far along in preparing to make these, investing in Elpida keeps things moving in the right direction. Although Intel owns only non-voting shares, says Mr Thong, “Elpida will say ‘wherever you want to go, we'll go with you'.”

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Face value

Software's jolly iconoclast

Jun 5th 2003
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AP

Has Marc Benioff seen the future of software?

WHEN it comes to bucking trends in the computer business, Marc Benioff has quite a record. His firm, salesforce.com, is a dotcom that not only survived the shake-out, but is also profitable. He is a cheerleader for the idea of delivering software as a subscription-based utility, like water or electricity—an idea that many firms have tried, mostly without success. This week, he unveiled his most ambitious venture yet. He is forging ahead into “web services”—a standardised way for computers to handle business deals online that is widely believed to be the next stage in the evolution of computing, but is still more hype than reality. Is Mr Benioff about to pull another rabbit out of his hat?

Very possibly. For web services are the next logical step in Mr Benioff's crusade to convince people that software should be rented, rather than bought outright. He had his epiphany in 1996, while working at Oracle, the world's second-largest software firm. While browsing one day on Amazon.com, he asked himself why business software could not be delivered the same way: via a web browser. People who shop at Amazon do not, after all, have to worry about installing, upgrading or maintaining anything: they just fire up their browsers, and it works. The service is secure and reliable, and has millions of users. “Amazon showed it was possible,” says Mr Benioff.

But only recently has his firm (and a few others) managed to make the software-rental model work. Paradoxically, the plunge in technology spending by firms has helped. Paying a monthly subscription to use a piece of software delivered immediately via a web browser is far cheaper and less risky than purchasing software outright, buying computers on which to run it, and hiring IT staff to support them. The rental model has also benefited from widespread dislike of the way that software is traditionally sold. It is in the vendors' interests to sell as much as possible, whether or not their customers need it, or it justifies its cost, or it works properly. The mismatch of promise and reality is most glaring in the case of “customer-relationship management” (CRM) software, which keeps track of sales leads, orders and customer records. Installing a CRM system is costly and disruptive. By some estimates, over 60% of CRM deployments fail.

That was why Mr Benioff decided, when he set up the firm in 1999, to start by offering CRM as a subscription service, Amazon-style, through a browser. The service now has over 90,000 users at 6,500 firms, including AOL Time Warner, Nokia, General Electric, General Motors and Cigna. Salesforce.com's clients typically test the service in a single work-group or division, expanding its use only if it proves successful. Thus the company has an incentive to ensure its clients are happy. Each user pays about $70 a month to subscribe. As well as reducing the risk of failure, renting CRM as a service cuts costs by two-

thirds, says Mr Benioff. (Traditional CRM vendors, such as PeopleSoft and Siebel, counter that their software has features that salesforce.com lacks.)

If the software-as-a-service rental model makes so much sense, why have so many firms that tried the same approach failed? Mostly because they targeted applications that were less well suited to the model, says Mr Benioff. A number of firms tried to offer human-resources and accounting software in this way, for instance. But while sharing customer information makes sense, payroll and financial information tend to be more jealously guarded, and bosses tend to be reluctant to outsource the storage and processing of it. Perhaps it will take longer for people to get used to the idea of outsourcing these core functions, says Mr Benioff. But his firm is testing accounting, billing, contract-management and document-management services internally, and will soon offer them as subscription services too.

After all, as he notes, most firms do not dig their own wells to ensure a supply of water, or build power stations to provide electricity. Software, too, he believes, should be provided as a utility by firms such as his that specialise in delivering it. He gleefully proclaims that this means the end of software as we know it. Last year he hosted an extravagant dotcom-bubble-style party, including a musical performance by David Bowie, to celebrate “Freedom from software”. And he will launch the next version of salesforce.com's service later this month with the help of Arnold Schwarzenegger. Punning on the Hollywood star's famous catch-phrase, Mr Benioff says that the marketing slogan will be “Hasta la vista, software”.

Joining forces

But behind this chummy iconoclasm, Mr Benioff's new web-services venture, called sforce.com, indicates a deadly seriousness about reinventing the software industry. The idea is to extend his firm's reach by “popping the top off” salesforce.com, and making the underlying computing infrastructure that is used to deliver its CRM service available to other software developers. They will be able to create and rent out software services of their own, at a cost of $50 per user per month. Mr Benioff hopes that these developers will sign up lots of new customers and jump-start a new market in web services. He has secured the backing of the top four sellers of web-services programming tools—Microsoft, Sun, BEA and Borland—all of which are promoting web services as the future of software.

In short, instead of just supplying its own software service, Mr Benioff's firm hopes to become the platform for many other such services. This was, he insists, his plan all along: salesforce.com is an example of the kind of service that can be delivered using sforce.com. “We hope to spawn an industry based on a new model,” he says. That is an ambitious goal. Maybe sforce.com will end up being used to extend salesforce.com's features, or merely link it to other software, not as the basis for a new wave of software services, let alone a new industry. But if the past is any guide, Mr Benioff is probably on to something.

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Trade unions

Déjà vu?

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AP

Strikes and demonstrations are returning to the streets and the headlines. Do they signal a revival of organised labour?

ON JUNE 3rd, France was virtually closed by yet another nationwide strike. The government's plan to reform the country's pension system is being opposed by massed ranks of workers on the streets. Their colourful banners and shouted slogans have dominated the local media for over a month, rising to a crescendo this week in advance of the parliamentary debate on the plan, scheduled to begin on June 10th. The last time organised labour took on the government over this issue (in 1995) the government backed down. This time it appears to have more resolve. The prime minister, Jean-Pierre Raffarin, has said that he does not intend to yield on the issue: it is, he has said, “about the survival of the republic”.

It is not just in France, though, that trade unions have been flexing their muscles of late. Demonstrations of organised labour on the move have been widespread.

• In Germany, the unions have been battling against their government's efforts to raise pensioners' contributions to their health-care schemes. Thousands marched in a series of rallies on May 24th to protest. This week, workers in eastern Germany were on the march again, this time to protest at the length of their working week.

• Even normally placid Austria was gripped by widespread strikes on June 3rd, following equally crippling stoppages on May 6th. This week's were said to be the largest industrial protest in the country since the second world war. Co-ordinated by the national federation of Austrian unions, they drew more than a million people on to the streets to protest (as in France) against planned pension reforms. Wolfgang Schüssel, Austria's chancellor, attacked the unions for launching a “disproportionate” strike and said that parliament would not be swayed.

• On May 21st, India suffered a general strike as workers protested against plans to privatise state-owned assets and reform labour laws. A huge march brought Calcutta to a standstill.

• In Britain, firemen have been on partial strike for months, demanding a huge pay increase while bitterly resisting changes to their working conditions. Tony Blair's Labour government has watched with some alarm as a series of elections has put militant leaders into the top jobs at some of the biggest

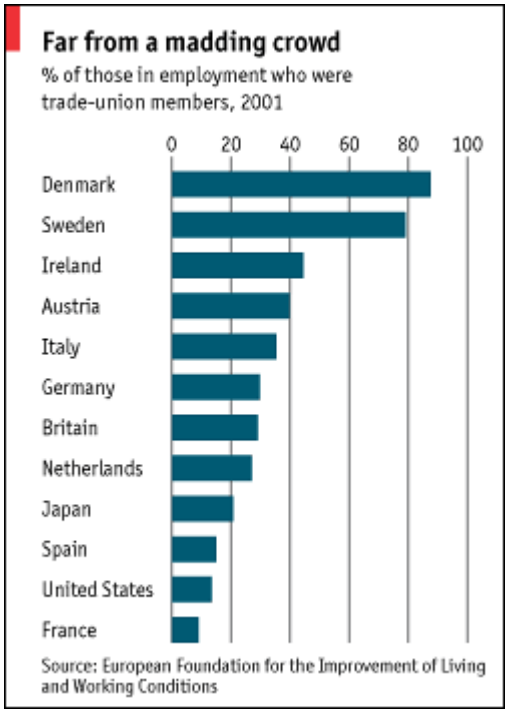
unions. In April, Kevin Curran, a former welder, succeeded the more moderate John Edmonds as leader of the GMB, Britain's fourth-largest union, and in May, Tony Woodley, a left-winger, defeated a candidate favoured by the Labour Party for the leadership of the powerful T&G union.

• In America, powerful unions have been holding back efforts to restructure ailing industries. In April, American Airlines narrowly avoided bankruptcy after it reached last-minute deals with unions representing pilots, flight attendants and ground staff. However, the USWA, the traditionally obstructive steelworkers' union, changed its attitude last September when it agreed to more flexible, less generous employment contracts and put its weight behind consolidation of the industry. On May 19th, it duly signalled its approval of a takeover by US Steel of rival National Steel, securing pension rights for its members in the process.

Strikingly deceptive

Europe at least appears to have entered a new period of labour militancy. But appearances can be deceptive. In Prague last week, members of the European Trade Union Confederation (ETUC) met for their four-yearly assembly to discuss their agenda for the future. (The ETUC brings together 78 national trade-union confederations with roughly 60m members.) The occasion was much more muted than recent events might have suggested. Cross-border wage-bargaining initiatives and minimum working standards featured more prominently than did industrial protest.

For the reality is that the past few years have been tough for the labour movement. In Britain, Germany and the Netherlands, the unions lost one-third of their members before they began offering carrots such as discount holidays and cheap insurance in order to regain them. In America, membership levels are considerably lower than in Europe: the proportion of workers who are union members is around 14%, compared with 21% in Japan and an average of 43% in Europe (see chart). The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), America's labour confederation, has struggled in recent years to replace its ageing membership.



But events in France show that small or declining membership is not necessarily the same thing as declining influence. Private-sector union membership in France is even smaller than the 13% figure for the country overall. But this belies the extent of union power, which is cemented not by mass membership but rather by the unions' formal role in the welfare system—via the *mutuelles*, organisations for delivering health and unemployment insurance.

Moreover, militancy itself is not easy to interpret—militant unions are not necessarily strong ones. A measure of protest, such as days lost to strikes, can be misleading. Rising industrial action may signal the failure of an existing social consensus—and corresponding union weakness—rather than a resurgence of union strength. By contrast, America's remarkably low strike activity (in 2001, the days lost to strikes were at a record low) is undoubtedly a sign of its unions' weakness across a widening band of the industrial spectrum.

Rent by economics

“With a few exceptions, trade unionism has been on the back foot,” says John Monks, a former head of Britain's Trades Union Congress (TUC) who last week was elected head of the ETUC. Some go further. Jeremy Waddington, an academic at UMIST in Manchester, England, argues that unionism is in crisis following the decline of a (largely European) model for its activity and organisation that emerged after 1945 and remained relatively stable until the late 1970s.

Several factors destabilised the model. In particular, the Thatcher government in Britain succeeded in reining in the power of unions that had previously held the country to ransom. New labour laws introduced strike ballots by secret vote rather than by a show of hands and made it

AFP

much easier for companies to sack striking workers. In America, Ronald Reagan took on the country's 13,000 stroppy air-traffic controllers in 1981, sacking all those who refused to return to work and later decertifying their union.

Persistently high unemployment in Europe in the early 1990s was also important, as jobless workers gave up memberships they could no longer afford. The changing nature of work—with many more part-timers and the end of lifelong employment as a norm—also played an important role in challenging the traditional rationale for unions. Mr Monks points to the success of America's economy in the late 1990s as another big influence on declining union membership. With employers bending over backwards to find good workers, who needed union support? The unions, it would seem, were damned in good times and damned in bad.

As the American economy boomed, so other countries sought to emulate its success. There was a wave of deregulation and privatisation, and the cult of shareholder value—a trend in which unions were kept very much in the background. The rise of market-led economics combined with low inflation to limit their room for manoeuvre. Mr Monks also cites the anti-union influence of business schools, calling them “bible colleges for the American way”.

Fists on the table, not on the street

The changing nature of the economy in big industrial nations has also played a more subtle role in undermining unions. Waves of cost-cutting and efficiency exercises have made private-sector companies leaner. Manufacturing jobs have been lost to developing countries with lower labour costs, leading to the end of the era of big factories in the West. “When there were 5,000 workers on one site, it was relatively cheap per member for a union to service them,” says Stephen Pursey, an analyst with the International Labour Organization (ILO) in Geneva. Plants with only 500 workers are much more expensive to serve. Some companies—such as Merloni, an Italian white-goods manufacturer—kept their plants small for this very reason.

The public sector has attempted, less successfully, to become leaner, and unions have responded in order to protect their members there. The recent wave of strikes across Europe has been largely related to pension reform and the protection of social benefits for public-sector workers. Less obvious, but no less potent, have been the struggles behind the scenes as governments have tried to improve public-sector performance. Union negotiators have fought a largely losing battle to preserve these workers' entrenched rights, while often recognising in private that something has to give.

Political persuasions

Their relations with government have also inevitably had a big effect on the unions. In America, trade unions have always been seen as affiliated to the Democratic Party, a useful alignment during the Clinton presidency, but one which has been disastrous since. John Sweeney, president of the AFL-CIO, publicly backed Al Gore against George Bush in the 2000 election. Not surprisingly, Mr Bush feels little compulsion to return his calls today.

Nevertheless, the unions retain considerable power in Congress, and a few have been courted by the Bush administration. But these have been in politically sensitive sectors—such as steel and oil—where there are jobs (and votes) to protect.

In some parts of the world, unions continue to play an important political role. In Brazil, for example, Lula da Silva, a former metalworker and shop steward, became president in January. His rise to power was the culmination of an indigenous union movement that for decades had campaigned for economic reforms.

In other countries, notably Italy, the unions have defied predictions that they would be marginalised. In 1991, CGIL, the biggest of three big union groups, adroitly abandoned its traditional goal of class struggle, adopting instead bargaining demands that were thought to be reasonable within the constraints of a capitalist economy, and seeking “co-determination” rather than confrontation. That set the tone for a decade or so of constructive engagement with the nation's politicians, a time when CGIL became a model of open communication with its members.

Flexible friends

The debate about what services a union should provide to its members in the 21st century is an ongoing one. Some have experimented and offered financial services, such as cheap mortgages and credit cards. Others believe the future lies in providing legal services, with union dues becoming more like insurance premiums for protection against problems at work.

Many unions have become far more pragmatic than they have dared to admit in public. In Germany, for example, big companies face daunting labour regulations that make it difficult to compete against more flexible foreign competitors. It is against the law to operate 24-hour shifts, or for Saturday to be treated as a normal working day. In public, IG Metall, Germany's biggest industrial union, is usually recalcitrant on these issues, refusing to discuss ways round the problem with company managers. Companies have, however, found their own solutions by negotiating directly with their works councils, essentially committees of worker representatives. Although they are union members, the representatives operate at the local level and can do things that it would be impossible for a national union to do without losing face.

Siemens, a giant engineering group, has negotiated more than 100 different deals on working hours in its German factories, deals that technically have broken the law but have been responsible for keeping thousands of jobs inside the country. A few years ago, the group's big medical-equipment division was in danger of having to abandon its historic centre in Erlangen, a loss that would have devastated the local economy. But a deal on flexible working time was agreed with the works council, and Erlangen now boasts modern high-tech Siemens factories that make medical scanners and good profits.

There are other examples of union pragmatism that defy the general conception of their inflexibility. John Evans, the general secretary of the Trade Union Advisory Committee (TUAC), a consultative body to the OECD, points to a group of countries where three-way deals between unions, government and employers have had a big impact, not just on economic performance but also on union participation. These countries include the Netherlands and the Nordic region, where a willingness by unions to take part in public dialogue about restructuring social safety nets has led to a resurgence of interest in union membership.

Also in this group of countries is Ireland. In the late 1980s, Ireland introduced a wide-ranging social pact, which included acceptance by the unions of wage restraint. Lucio Baccaro and Marco Simoni, the authors of a recent study commissioned by the ILO, found that Ireland's rolling three-year social agreements “altered the process of wage formation” and had an important side-effect in allowing big foreign companies to create highly competitive (but non-unionised) operations in the country.

Mr Pursey of the ILO suggests that social partnership can be an effective tool of economic management, particularly for smaller countries operating in the euro area. Facing budgetary constraints and unable to devalue their currencies, such countries can use co-ordinated national-level wage bargaining to keep claims in a narrow band and minimise differences between the public and private sectors.

Global brothers

Mr Monks says that there are plenty of other opportunities for organised labour to exploit. For example, it is slowly becoming aware that it has a largely untapped source of influence. Of the $17 trillion in worldwide pension and mutual funds, around $12 trillion either has direct union participation or employee involvement at the trustee level, says Mr Evans. Through the activism of funds such as TIAA-CREF, an American teacher's fund, unions have begun to realise that they can have a bigger voice in the broadening debate about corporate governance. The AFL-CIO, for example, has been very active in this year's shareholder revolt against executive pay.

There is also scope for more imaginative recruitment. The AFL-CIO has had some success in reaching America's growing Latino population. But women and minorities remain generally under-represented everywhere; few unions have made them central to their cause. The gender pay gap, for instance, has barely narrowed in recent years and remains high—20%, on average—across Europe.

Perhaps the biggest opportunity, though, is for the unions to find a new international model to replace the plethora of misogynistic national organisations that continue to run the show today. “Many big companies are global and have a mindset to match,” says Mr Monks. “Unions have to understand this

and adapt their approach accordingly.”

There are signs of the beginning of an international approach to union organisation. ETUC has scored some successes in Europe, including framework agreements defining minimum rights for workers and, more notably, the introduction of a directive on European works councils. There has been less progress towards a Europe-wide, collective-bargaining regime, mainly because there are internal tensions between national confederations and industry or sector federations.

Ironically, help is coming from a number of big companies. Mr Evans says that a few of the world's biggest firms are actively trying to polish their haloes by showing they meet or exceed guidelines on working practices—a sort of labour equivalent of environmental standards. Last year, for example, Volkswagen signed a global agreement with the International Metalworkers' Federation that set out the ground rules for how it operates worldwide. These include the recognition of workers' rights to join a union, and a commitment to proper pay and conditions. TUAC has had enquiries from dozens of big companies about such agreements.

In the end, the future of trade unions rests largely in their own hands. A few pioneers, notably in the Netherlands, have shown that a willingness to address their own organisational weaknesses (and an acceptance that some social reforms are inevitable) can translate into a much greater degree of influence. The noisy, colourful demonstrations of recent weeks attract media attention and raise the unions' profile. But they are not symptomatic of what influential unions do today, nor of what they want to do tomorrow.

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Insurance and the scandals on Wall Street

Whose skunk is it?

Jun 5th 2003
From The Economist print edition

Investment banks and their insurers prepare to quarrel over who should pick up the bill for Wall Street's scandals

THE settlement between a host of American regulators and ten Wall Street banks, signed on April 28th, may have been only the end of the beginning of the financial industry's troubles. Investigations into misdeeds on Wall Street continue. Regulators have now embarked on a second round of efforts to root out conflicts of interest: they demanded this week that more than 50 executives at 12 securities firms hand over e-mails and other records by June 20th.

With each new discovery of suspicious activity, investment banks have far more to fear than merely regulators. Their insurers have cause to worry too. Private investors are being galvanised to sue Wall Street's behemoths. So far this year, more than 80 suits have been filed. Many more are expected. The costs look certain to exceed by far the $1.4 billion that the banks agreed to hand over in fines and other payments in the April settlement.

How big is the bill going to be, and who is going to foot it? Banks and insurers agree that it will take at least three or four years to clean up the mess left by the stockmarket bubble and the scandals that have emerged since it burst. They agree that a lot of expensive lawsuits are on the way. Both industries have started to build up their reserves for settlements with regulators and private litigants.

However, banks and insurers disagree strongly over how the burden of the scandal should be shared. Banks think they are covered for at least part of the cost of private litigation, and even for some of the regulatory settlement, and will try to pass this on to their insurers. Insurers, for their part, deny that their policies cover as much as the banks would like to believe, and will fight a lot of the claims. Indeed, the battle over who ultimately pays for private lawsuits will be far more acrimonious than the negotiations with regulators. The settlement, after all, is done and dusted—and it was relatively cheap.

Will pay, won't pay

Some banks have already said they will not claim insurance for any of their share of the $1.4 billion

agreed with regulators. In any case, the settlement says that banks may not make insurance claims or seek tax credit for the $487m of the total accounted for by fines. They may, however, claim tax deductions and insurance for the “disgorgement” of $387m of ill-gotten gains, the $432m to pay for independent research, and the $80m to finance investor education. However, Robert Hartwig of the Insurance Information Institute, an industry lobby group, thinks such claims would make little sense. The deterrent effect of the settlement would be greatly diminished, he says, were insurers to pay for part of it.

When it comes to private suits, all banks with insurance for poor decisions and errors by their employees will try to claim legal fees and settlements from their insurers. Indeed, arguments over such suits will be nothing new. In 2001, 308 suits were filed by private investors against investment banks and issuers of initial public offerings. They accused the banks and issuers of telecoms and technology shares of “laddering”—giving fund managers shares in hot offerings if they agreed to buy more at progressively higher prices after the stock had gone public. This practice is illegal, because it inflates the prices that small investors then pay. The cases are still pending.

Just as they have in the laddering cases, Wall Street banks will claim directors' and officers' insurance (D&O) and insurance for errors and omissions (E&O) if they are sued over allegations that securities analysts published over-optimistic research on companies in the hope of attracting investment-banking business from them. D&O covers the legal consequences of managers failing in their duties. E&O covers firms for unintentional mistakes by employees. Neither D&O nor E&O insures against fraud. There is no industry-wide format for either policy, although both have a deductible—a minimum threshold for the policy to kick in—as well as a maximum payout.

Until the end of the 1990s, D&O and E&O were relatively cheap. Premiums fell by 38% between 1995 and 2000. The biggest players in the industry in America are AIG and Chubb, two insurers that together capture 50% of premiums. In the last three years, as corporate and financial scandals have unfolded, insurance has become more expensive. Prices for D&O went up on average by 30% last year. Rates for Wall Street banks tripled or even quadrupled. Deductibles went up across the board. These days insurers write E&O only at prohibitive prices, if they write it at all.

Thanks to much higher premiums, more stringent terms and stronger demand, some companies (usually those with little or no exposure to America's corporate and financial scandals) see D&O as the opportunity of a lifetime. Allianz, a German insurer, announced in January that it was setting up a new D&O subsidiary in America. XL Capital, a Bermudian insurer that was until recently a relatively small player, expects to be the world number three in professional-liability insurance by the end of the year.

Yet insurers caught up in the scandal probably rue the day they entered the market. Warren Buffett, head of Berkshire Hathaway, an insurance-heavy conglomerate, even thinks D&O is harmful, because the policies create moral hazard. The knowledge that they are covered, says Mr Buffett, encourages executives to be sloppy. He does not buy D&O for any member of Berkshire's board.

Banks and insurers have started to make provisions for the legal and regulatory bill for the excesses of the past. One-quarter of a $2.8 billion pre-tax charge that AIG took in the fourth quarter of 2002 to boost its loss reserves was due to worries over D&O. Chubb pumped $100m into its reserves for D&O-related losses in the fourth quarter of last year. Citigroup said in December that it would set aside $1.3 billion for regulatory settlements and private litigation: its share of the regulatory pact accounted for only $400m of this. Credit Suisse First Boston said in January that it put $450m into reserve for private litigation alone. CSFB is paying $200m under the Wall Street settlement.

Insurers are determined to resist any attempt by banks to pass on their legal fees and settlements with plaintiffs. Deceit, they point out, is not covered by D&O and E&O. (Against that, no investment bank has yet admitted wrongdoing.) Moreover, they add, the damage is limited to the maximum payouts under D&O and E&O policies. “It is a lot different from asbestos,” says Evan Rosenberg of Chubb, in a reference to claims for asbestos-related illnesses, the chief scourge of American insurers. However, Mr Rosenberg is not belittling the potential impact of private litigation. This may, he says, indeed be the investment banks' asbestos.

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The American Stock Exchange

Cheaper than a penny stock

Jun 5th 2003 | NEW YORK
From The Economist print edition

A new owner at the Amex could signal rebirth—or not

AFTER two years of courtship and then rejection by a string of suitors, the American Stock Exchange (Amex) has finally found a mate. On June 2nd, GTCR Golder Rauner, a Chicago investment firm, agreed to buy the Amex for $110m from the National Association of Securities Dealers (NASD), owner of the NASDAQ stock exchange, which the NASD is also shedding in order to focus exclusively on its regulatory role.

“I was surprised to hear that anyone would pay anything for the Amex—until I realised, no one did,” says Matt Andresen, head of global trading at Sanford Bernstein, an investment bank, referring to the transaction's terms. Pending approval by regulators and the boards of the Amex and the NASD, the seller will reinvest all $110m of the proceeds into Amex's technological infrastructure, in accordance with pre-existing commitments. Moreover, any excess cash will stay on the Amex's balance sheet. Add to that the cost of the NASD's adviser, Credit Suisse First Boston, and it seems that the NASD was so desperate to offload the Amex (or thought so little of the prospects for such an archaic floor-based exchange) that it gave the entire outfit to GTCR for nothing.

The Amex is having a rough time. It is losing market share in its three main product areas: shares; exchange-traded funds; and equity options. The number of firms listed on it has fallen by one-fifth in the past decade, and its trading volume is paltry. In exchange-traded funds—baskets of securities that investors can buy and sell as a single stock—the Amex is rapidly losing ground to electronic share-trading networks and to the New York Stock Exchange. What hurts most is that the Amex invented the things.

In options trading, the Amex (along with the rest of the industry) has been outstripped by the upstart International Securities Exchange (ISE), the first all-electronic options exchange in America. The ISE started in 2000 with a market share of just over 1% of all equity option contracts traded. By this May, says the Options Clearing Corporation, its share in equity options, on which it concentrates, had risen to 29%, ahead of the Chicago Board Options Exchange (CBOE—26%) and the Amex (22%). The ISE's electronic trading and deal-processing prowess is making mincemeat of the other exchanges' physical trading floors and lack of automation.

“It is adapt or die,” says John Romeo of Mercer Oliver Wyman, a financial-services consultancy. But adapting has been a challenge for the Amex because of its cumbersome governance structure: members include retired investors, brokers and specialist firms, who can block critical moves to change its market structure. Equally unhelpful, according to insiders at the exchange, has been a lack of strategic vision by the management of the Amex since the NASD took it over in 1998.

Specialist trading firms have been hacking away at the prohibitive costs of maintaining a presence on all four floor-based options exchanges in the United States. In early May, Bear Stearns closed its operations on the CBOE. Earlier, Susquehanna had shut down its book on the Pacific Exchange, and TD Securities had closed its options business on the Pacific and Philadelphia Exchanges.

Luckily for the Amex, GTCR, an investment firm with almost $5 billion under management from the likes of Yale University and the Iowa state pension fund, is unlikely to sit on its hands. And even before the transaction, the Amex had launched an automated order system. The GTCR acquisition is likely to result in more spending to upgrade the Amex's infrastructure. Arguably, these investments, and some better plans to shape its market structure, could put it in a stronger position. It is conceivable that a sense of impending mortality might finally concentrate the minds of its more Luddite members.

But competition is not likely to slacken. The CBOE and other options exchanges have moved more swiftly

than the Amex to a hybrid model, combining their floor presence with increased automation. And new entrants loom: Eurex, a German-Swiss electronic derivatives exchange, is aiming to offer electronic options trading in America; so is BOX, a joint venture between the Boston and Montreal exchanges. With all this, and the galloping ISE, does the Amex really stand a chance of reinventing itself?

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Martha Stewart

It's not a good thing

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An icon of making anything look good is indicted for an ugly cover-up

Reuters

Martha's in a mess

BEGINNING with a small catering business in the 1970s, Martha Stewart built a vast media conglomerate spanning books, magazines, television, radio and the internet, devoted to providing helpful tips with the sign-off: “It's a good thing”. After her company, Martha Stewart Living Omnimedia, went public in late 1999, her stake was briefly worth more than $1 billion.

It has all been put at risk by her own use of a share tip to avoid a loss, tiny for someone of her wealth, on an investment in ImClone Systems, a pharmaceutical company then run by her friend, Samuel Waksal, that has a promising product for treating colonic cancer. According to a long indictment filed on June 4th, Ms Stewart was said to have been advised by her stockbroker, Peter Bacanovic, that Mr Waksal had ordered his own large stake in ImClone to be sold. Within hours, Ms Stewart did likewise. A day later, the Food and Drug Administration (FDA) said it was not yet prepared to begin reviewing ImClone's cancer drug. The share price crumbled.

According to the indictment, by moving quickly Ms Stewart received $228,000 for her stake. Had she waited for the FDA's announcement, she would have made $50,000 less. Mr Waksal has pleaded guilty to trading on inside information. Ms Stewart does not face criminal insider-dealing charges, although the Securities and Exchange Commission has filed civil charges. Prosecutors accuse her of obstruction of justice, making false statements and perjury, all tied to efforts made after the transaction to suggest her sale was not motivated by her broker's tip. She has thus been indicted for covering up an activity that prosecutors may not believe they can show to be criminal. Ms Stewart and Mr Bacanovic, who was also indicted, pleaded not guilty.

To her own shareholders Ms Stewart's worst offence has been the collapse of her company's share price as the prospect of an indictment grew. Ms Stewart is all but irreplaceable, yet she is stepping down as chairman and chief executive. For a woman who had an almost magical ability to make everything appear wonderful, it's a sad moment.

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Japan's life insurers

Cautionary tales

Jun 5th 2003 | TOKYO
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Dos and don'ts of buying a Japanese life insurer

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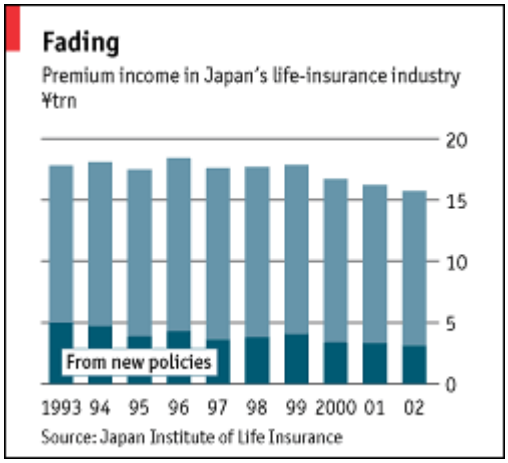

THERE can be few industries anywhere that are in worse shape than Japanese life insurance. The insurers are squeezed between high guaranteed pay-outs to policyholders and dismal investment returns that show no sign of picking up: on June 3rd, indeed, yields on ten-year Japanese government bonds fell below 0.5% for the first time. On May 30th, Japan's seven biggest insurance companies announced that this mismatch had cost them ¥1.1 trillion ($9 billion) in the year to March, extending a decade-long run of such deficits.

On top of this, many insurers have suffered huge losses on their equity portfolios. Policy cancellations are mounting, and many Japanese, who typically own four or five policies, are not bothering to replace those that mature. Small wonder that seven life insurers have collapsed since 1997.

Yet foreign firms, such as Prudential, AIG and GE Capital, have been snapping up Japan's failed companies, showing that anything can be sold on the right terms (see table). Some insurers were cleaned up with industry support funds; the bankruptcy courts cut the liabilities of others. Most important, collapsed insurers have been allowed to cut their guaranteed rates of return (from around 4% to 1% or so) and to impose stiff penalties on customers who cancel policies.

Bargains?
Japan's bust life insurers

	Year collapsed	Capital shortfall, ¥bn	Buyer	Purchase price, ¥bn	Year bought
Nissan Mutual	1997	302	Artemis (France)	25	1999
Toho Mutual	1999	650	GE Capital (US)	240	2000
Daihyaku Mutual	2000	320	Manulife (Canada)	147	2001
Taisho Life	2000	37	Yamato Life (Japan)	7	2001
Chiyoda Mutual	2000	598	AIG (US)	320	2001
Kyoei Life	2000	690	Prudential (US)	364	2001
Tokyo Life	2001	73	T&D Financial (Japan)	33	2001

Source: Companies

These penalties have proved especially helpful. Life insurers can cut the value of policies cancelled in their first year by up to 20%; smaller reductions can be applied to later cancellations. Manulife, a Canadian insurer, fielded 84,000 calls from disgruntled customers in one day after it bought Daihyaku Mutual in 2001; half its policies have since been cancelled. Standard formulas suggest that Manulife made up to ¥80 billion, more than half the ¥147 billion it had paid for Daihyaku, in the process. Prudential, which bought Kyoei Life (renamed Gibraltar Life) for ¥364 billion, also in 2001, made ¥81 billion from cancellations in its first year. GE Capital, which bought Toho Mutual (now GE Edison Life) in 2000, has probably got back half its ¥240 billion investment.

Insurers are also making juicy profits on remaining policies, not only by reducing guaranteed rates of return but also by cutting costs and updating assumed mortality rates. This still leaves them with

shrinking businesses, the rebuilding of which is a tall order. The market for traditional products is saturated. The bankruptcies of predecessor firms have left many Japanese reluctant to buy from the newcomers. A lengthy product-approval process is another drawback.

On their bikes

Operations need sorting out too, at some cost. “The sales process was primitive: we found 15 workers sharing one telephone and one computer at some of the sales offices,” says Trevor Matthews, president of Manulife Japan, which has spent $15m in the past two years to improve its infrastructure and retrain staff. In Japan, battalions of “bicycle ladies” sell life insurance door-to-door. Staff turnover is high. Foreign owners are pruning their current salesforces, while trying to build smaller bands of professional “financial planners”. The process has been time-consuming and expensive.

All the while, puny investment returns have been little help. Some foreign insurers have already had to pull unprofitable products off the market. They are now pinning their hopes on non-traditional products such as variable annuities, which are similar to investment trusts, but offer tax breaks. Yet sceptics wonder whether such products will appeal to customers if Japan's stockmarkets remain weak.

Not surprisingly, some foreigners have fared better than others in this harsh environment. The biggest winner has been Artemis, a French company that controls Pinault-Printemps-Redoute, a luxury-goods firm. Artemis bought Nissan Mutual (now Aoba Life) for ¥25 billion in 1999. Alone among foreign buyers, it decided not to underwrite any new policies but merely to manage existing ones until they matured, a strategy that requires little further investment. Artemis has recouped its initial outlay, and is making money.

Of the others, America's Prudential has done well, largely because it bought Kyoei Life, which has an all but exclusive franchise to sell life insurance to the teachers' and hairdressers' guilds. Perhaps the biggest loser has been another French company, AXA, an insurer which bought Nippon Dantai before it collapsed, thus forgoing perks that others have enjoyed.

Other foreign insurers may soon have the chance, should they want it, to try their luck in Japan, because more firms may come up for sale. That local life insurers are steadily weakening has been borne out not only by their results but also by frantic attempts by politicians and the Financial Services Agency, their regulator, to save the weakest. A bill that would allow troubled life insurers to cut their guaranteed rates of return before they collapse is being debated in parliament.

Potential shoppers might be tempted by Sony Life whose owner—Sony, an electronics giant—has decided to sell half its stake. Against the trend, Sony Life has steadily increased its individual life-insurance business over the past six years. Its salesforce, made up of former salesmen from industries ranging from cars to computers, is considered the best in the country. Although Aegon, a Dutch insurer, and GE Capital have been sniffing around, the stake is still on offer.

However, anyone bold enough to buy might also find a willing seller among the foreign insurers. Disheartened by their fortunes so far and by their dim prospects, some would probably be happy to put their purchases back on the market for braver souls to buy.

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The yen

Keep it weak

Jun 5th 2003 | TOKYO
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Business as usual at Japan's central bank

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A WEAKENING dollar is perhaps the last thing that the Bank of Japan wants. With domestic demand anaemic, Japan perennially relies on exports and overseas production, especially of cars and electronics, to keep its economy going. So throughout May, even as the yen fell sharply against the euro, the central bank was intervening furiously to keep it from rising too far against the dollar.

Since May 15th, when the yen closed at ¥116 (see chart), having hit a 27-month high, the pressure has eased. By this week it was back to ¥119, near the ¥120 with which the Bank of Japan seems comfortable. In trade-weighted terms, thanks to the strengthening of the euro, the yen is now weaker than it was when the Iraq war ended in April. Even so, the prime minister, Junichiro Koizumi, said on June 3rd at the G8 summit in Evian that the yen was still too strong against the dollar.

The Bank of Japan may have helped Japan's carmakers, but it is offering little solace to the rest of the economy. With short-term interest rates at zero, the central bank has relied on non-traditional measures to inject liquidity into the financial system. For example, it has boosted banks' current-account balances with the central bank. Since Toshihiko Fukui took over as governor in March, the Bank of Japan has raised its ceiling for these balances by 50%, to ¥30 trillion ($250 billion). This week, however, Mr Fukui mused aloud about whether the policy was doing any good.

The Bank of Japan also continues to buy new government bond issues at a rate of ¥1.2 trillion per month. This has helped drive the yield on ten-year bonds down by four-tenths of a percentage point since the start of the year, to below 0.5%. But the central bank is loth to be more aggressive—by, say, buying some of the outstanding stock of bonds, rather than just a portion of new issues, or by buying foreign assets.

If the Bank of Japan is to conquer deflation, it will have to do more. However, this does not really seem to be the central bank's goal. Its main concern is to avoid being blamed for any large-scale financial collapse. So its officials step in from time to time to reassure markets, but do little more. Recently, its officials have been considering a plan to buy asset-backed securities in an effort to prop up ailing small firms.

The Bank of Japan is not short of helpful advice from visitors to Tokyo. On June 4th Anne Krueger, deputy managing director of the IMF, said that exchange-rate manipulation was unlikely to do much good, and advised the Japanese to set an inflation target. A few days earlier Ben Bernanke, a governor of America's Federal Reserve, had also suggested ways in which the central bank could promote inflation and ease worries about its balance sheet. He also stressed the importance of using monetary and fiscal policy in concert.

Japan's central bankers have heard such arguments before, and ignored them. That may be one reason why Mr Bernanke began his speech by pointing not only to Japan's “structural, monetary and fiscal problems”, but also to its “frustratingly slow pace of change”. “From my side of the ocean,” he said, “it

seems that many people are looking to the United States to take the responsibility for leading the world into economic recovery." Perhaps he should not have wasted valuable time on a trip to Japan.

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South Africa's economy

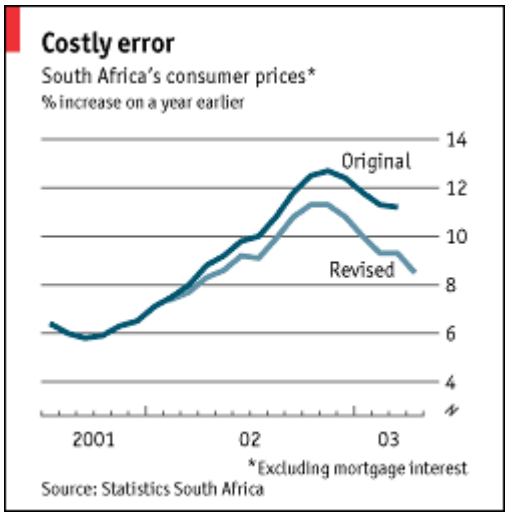
Miscalculation

Jun 5th 2003 | JOHANNESBURG
From The Economist print edition

An unexpected and embarrassing drop in inflation

ON THE face of it, South Africa just had a stroke of luck. Consumer prices have been rising painfully quickly since the rand slumped in 2001. The treatment, high interest rates, has hurt too. But on May 30th official figures showed a sudden dip in the inflation rate. Success for the stern central bank, which last year raised interest rates four times? Up to a point. A resurgent rand and falling food prices have, it is true, cut inflation. But the main reason for the fall is an admission by officials that they got their sums wrong.

Statistics South Africa, the government agency responsible for inflation data, had been making a mistake in calculating rents since at least February last year. Over time, the figures became increasingly inaccurate. At first, inflation was overstated by 0.1 percentage points, but by March this year it was 1.9 points out (see chart). Having been in double digits all year, inflation has dropped to 8.5%. By next year it may be within the central bank's target of 3-6%.



All's well that ends well? Er, no. The error has cost some South Africans dear. Many borrowers paid more for loans than they should have. High interest rates also helped push up the rand, hurting exporters. Some mining companies say their results will be grim because of the high rand. Several economic warning lights are now flashing. Business activity is sinking, so are confidence and car sales. Meanwhile GDP growth has slowed sharply.

Of course, not all of this can be blamed on the bad inflation sums. But plenty of it can. Consumers are fuming. Many companies, such as Telkom, a monopoly telecoms supplier, Eskom, a state-run energy company, and the post office, link their annual price rises to inflation. Opposition politicians say customers deserve a rebate.

The government, already likely to miss its economic-growth target of 3.3% this year, is becoming anxious. It is planning a “growth summit” at which it hopes to persuade its communist and trade-union allies that its liberal macroeconomic policies are the best means to faster growth and lower unemployment. Good ideas; but without decent statistics, how can ministers hope to prove it?

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Economics focus

Taking stock

Jun 5th 2003
From The Economist print edition

Financial economists wonder what is left of their favourite models

SINCE the stockmarket bubble burst more than three years ago, investors have had ample time to ponder where to put the remains of their money. Economists and analysts too have been revisiting old ideas. None has been dearer to them than the capital asset pricing model (CAPM), a formula linking movements in a single share price to those of the market as a whole. The key statistic is “beta”: the proportion of a given change in the market that, on average, is reflected in the price of the share.

Beta has taken a beating along with investors' wallets. A recent study by André Annema and Marc Goedhart of McKinsey, a consultancy, argues that the bubble in technology, media and telecoms shares has had a long-lasting effect. Because the prices of these shares rose, and then fell, by more than the market as a whole, their betas increased during the bubble and its aftermath. And because beta for the whole market must be equal to one, betas for other, old-economy shares fell. The study concludes that investors should strip out the effects of the bubble. That implies some large adjustments to betas.

In any case, many investors and managers have already given up on beta. Although it is useful for compiling share portfolios—in particular, for working out their overall correlation with the market—it tells you little about share-price performance in absolute terms. In fact, the CAPM's obituary was already being written more than a decade ago when a paper by Eugene Fama and Kenneth French, then both at the University of Chicago, showed that the shares of small companies and “value stocks” (shares with low price-earnings ratios) do much better over time than their betas would predict. However, pointing out this problem raises another one: why should small size or low market value make a company a better bet than any other?

Another new paper, by John Campbell and Tuomo Vuolteenaho of Harvard University, tries to resuscitate beta by splitting it into two. The authors start from first principles. In essence, the value of a company depends on two things: its expected profits and the interest rate used to discount these profits. Changes in share prices therefore stem from changes in one of these factors.

From this observation, they propose two types of beta: one to gauge shares' responses to changes in profits; the other to pick up the effects of changes in the discount rate. This helps them explain the performance of small and value companies. Shares of such companies are more sensitive than the average to news about profits, in part because they are bets on future growth. Shares with high price-earnings ratios vary more with the discount rate. In all cases, above-average returns compensate investors for above-average risks.

Equity's allure

Beta is a tool for comparing shares with each other. Recently, however, investors have been worried about equity as an asset class. Even though shares have recovered some of their losses in recent months, the crash has left investors asking what became of the fabled equity premium, the amount by which they can expect returns on shares to exceed those from government bonds. The recent rise in the bond market has made the question even more pertinent.

History says that shareholders have a lot to be optimistic about. Over the past 100 years, investors in American shares have enjoyed a premium, relative to Treasury bonds, of around seven percentage points. Similar effects have been seen in other countries. Some studies have reached less optimistic conclusions, suggesting a premium of four or five points. But even this makes shares far more attractive,

in the long run, than bonds.

Even so, economists these days are still hard pressed to offer convincing explanations of why investors have enjoyed better returns from equities, or of why they should expect a premium in the future. The usual argument is that shares carry more risk than government bonds: as the residual owners of a company, shareholders stand to lose their entire investment in the event of bankruptcy. Yet Rajnish Mehra of the University of California, Santa Barbara, argues that it is hard to see why this should give rise to a premium of much more than a percentage point.

Many answers have been put forward to explain the premium. One is that workers cannot hedge against many risks, such as losing their jobs, which tend to hit at the same time as stockmarket crashes; this means that buying shares would increase the volatility of their income, not reduce it, so that investors require a premium to be persuaded to hold them. Another is that shares, especially in small companies, are much less liquid than government debt. It is also sometimes argued that in extreme times—in depression or war, or after bubbles—equities fare much worse than bonds, so that equity investors demand higher returns to compensate them for the risk of catastrophe.

Mr Mehra finds all this unconvincing. It turns out, for example, that bonds often do as poorly as equities in times of great distress. In France in the 1920s their prices fell by around 90%. Holders of Mexican bonds suffered huge losses in the 1980s. Other investors in emerging-market bonds have also been clobbered at various times.

All of which implies a somewhat unsatisfactory conclusion. Yes, over long periods equities have done better than bonds. But there is no equity “premium”—in the sense of a fairly predictable excess over bond returns on which investors can rely. There is a large element of mean reversion in share-price swings: shares look overvalued at the end of a bull run, when premiums may even turn negative, as they have done recently; after a long bear market, they are almost certain to bounce back. Searching for a consistent, God-given premium is a fool's errand.

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Judicial publication

Jun 5th 2003
From The Economist print edition

In a judgment dated May 23rd 2003, the section of the criminal court of Paris dealing with media condemned Mr Emmott, editor-in-chief of a weekly, *The Economist*, for having defamed publicly Crédit Lyonnais and its chairman, Monsieur Peyrelevade, by publishing, in the edition of May 19th-25th 2001, an article on pages 82 and 83 entitled “The scandal continues” and a cover line “Crédit Lyonnais, new revelations”, which implicated the bank and M. Peyrelevade.

Editor's note This statement is published by order of the French court. Mr Peyrelevade brought two writs for defamation against me: the first, for two articles on January 13th 2001, “A new scandal at Crédit Lyonnais” and “The curse continues”, was rejected. The above verdict, for our third article, also awarded damages of *euro*3,000 ($3,384) to each of Mr Peyrelevade and Crédit Lyonnais, and *euro*1,500 in costs. In view of the ruling, the article “The scandal continues” has been removed from our online archive. The first two articles remain there, as do a fourth article, “Management by committee” (July 14th 2001) and a fifth, “Questions, questions” (July 13th 2002), in respect of which Mr Peyrelevade has not sued.

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Our new financial column

Jun 5th 2003
From The Economist print edition

This week, we have launched a new weekly column on financial markets, which will appear every Tuesday in Global Agenda, on the homepage of this website. We are holding a competition to find a name for the column, and a magnum of champagne will go to the reader with the best suggestion. Ideas should be sent to the Editor, at letters@economist.com, marked “financial column”.

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AIDS, Africa and the G8

The right direction

Jun 5th 2003 | JOHANNESBURG
From The Economist print edition

Nice promises; now do something

Get article background

LEST the leaders of the rich world forget their obligations, a delegation of African presidents led by Thabo Mbeki of South Africa turned up at the recent G8 meeting in Evian to remind them. The delegation had a long shopping list: support for a proposed African peacekeeping force to intervene in civil wars; tariff cuts to encourage trade; a system of "peer review" whereby countries will try to attract more aid and investment by volunteering for outside scrutiny of their economies and politics. But the big prize was help fighting AIDS, a disease which kills several thousand Africans every day. And help, it seems, may be forthcoming.

Just before the meeting in Evian, America's Congress approved George Bush's five-year "emergency plan" to fight the disease, especially in Africa. Much of the plan's $15 billion budget will be given as bilateral aid. But some—up to a maximum of $1 billion a year—will go to the cash-starved Global Fund, an organisation that supports 150 programmes that fight AIDS, tuberculosis and malaria.

That maximum will only be reached, however, if other countries chip in. Every dollar of American money has, according to Congress, to be matched by two from elsewhere. Both before and during the Evian meeting, other donors promised cash of their own: Britain has pledged $80m over five years and France pitched in an extra *euro*100m ($117m) a year (Canada offered $100m over four years, when the fund was started last year). Mr Mbeki said that European leaders had promised to match the Americans. "They said the EU would immediately pledge $1 billion a year" for the Global Fund, he claimed, although this has yet to be confirmed by the EU leaders in question.

Extra cash is always welcome, but there are doubts about whether it can be spent effectively. Indeed in South Africa, 11% of whose population of 45m is infected with HIV, lack of cash is not the main difficulty at the moment. Donors claim that Mr Mbeki's government refuses to use resources that are already available to it. "There is," according to a senior diplomat from a donor country, who prefers not to be named, "a pent-up supply of help for AIDS. All the help is there, on the table. The private sector, pharmaceutical companies and donors are dying to make a difference. The real problem is of absorptive capacity, not external resources."

Most contentiously, South Africa will not widely distribute anti-retroviral drugs until its concerns about

long-term costs, dependence on foreign companies and safety are assuaged. A policy rethink is promised later this month, but few expect radical change. Last year, the Global Fund tried to bypass the government and give cash to provincial anti-AIDS efforts instead, but this attempt was blocked by the health minister.

Not all the problems lie with the recipients, however. Donors have their own ideological hang-ups that get in the way of sensible policy. The new American bilateral aid will be directed in part towards changing sexual behaviour—preaching abstinence and monogamy in societies that have long been relatively promiscuous and polygamous. Many AIDS workers believe this sort of preaching is futile. People can be persuaded to use condoms, but trying to change their behaviour beyond that is both pointless and paternalistic. Limits imposed by donor countries on the import and use of cheap generic drugs produced in India or Brazil are also causing anger. On June 2nd Trevor Manuel, South Africa's finance minister, said the new funds “will land in the pockets of US pharmaceutical companies” unless generic drugs are made widely available. More important than extra cash, he suggests, would be a deal to bring down the price of drugs.

Moreover, much larger problems remain beyond South Africa's borders. That country has a well-organised and functioning health system. Many African states do not, and are thus less able to accept foreign help, even when it is forthcoming. Lacking nurses, doctors, good roads and communications, countries such as Tanzania find it difficult to absorb and spend large amounts of donor money efficiently. Still more depressingly, rows between finance and health ministries over who should accept money from the Global Fund have slowed disbursements. The pot of money is getting larger, but it is not becoming any easier to share out.

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SARS

An ounce of prevention

Jun 5th 2003
From The Economist print edition

Some early lessons and legacies of SARS

Get article background

THESE days, any international meeting on health is sure to have Severe Acute Respiratory Syndrome (SARS) high on the agenda. And the annual gathering of the World Health Organisation (WHO), held in Geneva from May 19th-28th, was no exception. Representatives of 192 countries recognised SARS as the first grave infectious disease to emerge in the 21st century. They also noted that lessons learned in the response to the disease, such as the need for prompt and transparent reporting, would be relevant to the next new disease, as well as to possible acts of terrorism.

As of June 3rd, WHO had recorded 8,398 cases of SARS, 772 of which had proved fatal. Infections are still occurring in mainland China, Hong Kong and Taiwan, but health officials in all three places are becoming more hopeful as the number of new cases appears to be declining. A cluster of new infections in Toronto, however, caught everyone by surprise. But it seems likely that Canada's tight new control measures will, if adhered to, bring this outbreak to a halt as well.

Scientists in China have found some clues to the origin of the virus. Many local animals have been screened and evidence of SARS has been found in three species—palm civets, racoon dogs and Chinese ferret badgers—that are sold alive in food markets. Whether any of these species was the original source of SARS, or whether the animals in question have caught it from infected people, is not yet clear. Nor is it clear whether any species other than man is part of the disease's chain of transmission—a separate issue from that of where SARS originated. That matters because, as Mark Salter, WHO's co-ordinator for the clinical management of SARS, points out, the answer to the question of how easily SARS may become endemic in China or elsewhere depends in part on whether there is a widespread animal reservoir for the disease.

It is still too early, therefore, to say whether SARS can be eliminated. But it is certainly possible to say that the virus has caused a transformation of attitudes to infectious disease. Around 30 such diseases have emerged during the past two decades or so—notably Hanta virus and Ebola fever. But with the exception of HIV-1, the cause of the main sort of AIDS, they have either become established only in restricted areas or are biologically limited in their ability to pose a threat to international public health. Dealing with them has not, therefore, been much of an issue.

The rapid spread of SARS, however, has scared people into action. One outcome of the meeting in Geneva has been to allow WHO to revise its legal framework for the reporting of infectious diseases. Existing regulations allow the organisation to take information about epidemics only from official government notifications. The result, in the case of SARS, was that WHO did not know about the outbreak of atypical pneumonia that began the epidemic until the Chinese government confirmed it in February. That was several months after it had actually started. Indeed, some virologists now say they knew about the emergence of a mysterious new virus in China towards the end of last year, but such reports would have cut no ice with WHO.

The new rules will also allow WHO to conduct on-the-spot studies in member countries, to ensure that control measures are adequate to prevent the international spread of disease. However, the necessary revisions to WHO's legal framework will not be completed before 2005.

On top of all this, there is new money for dealing with SARS. WHO has created a $100m public-private initiative to fight the virus, and to improve surveillance and control in China and its neighbours. There are also plans to strengthen the global network that responds to disease outbreaks. Which is wise. Two

studies published recently in *Science* show that, uncontrolled, SARS is sufficiently contagious to cause a global pandemic.

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Engine design

A shed-load of ideas

Jun 5th 2003
From The Economist print edition

A new design for an engine has a quintessentially British origin

ENGINES have been spluttering along in more or less the same way for decades. Most motor vehicles still rely on one of two sorts of piston-based internal combustion engine, both conceived over 100 years ago (by Nikolaus Otto and Rudolf Diesel). Turbine engines are similarly ancient. Even one of the more recent innovations, the pulsed jet engine, which injects gobbets of fuel into a combustion chamber to create intermittent pulses of power, made its debut as far back as the second world war. It formed the motor of the V1 flying bombs launched by Germany against Britain.

Now, a father-and-son team of inventors from Suffolk, in Britain, hopes to revolutionise engine technology with a new design for an ultra-efficient engine. John and Laurie Archer have been spending their spare time hidden away, in true British inventors' tradition, in a shed at the bottom of the garden. There, they have designed a motor that can run on natural gas, methane from landfills, or hydrogen.

After ten years of hard work, a prototype made in part from a child's construction kit, and many patent applications, they have licensed their design to a Dutch technology group called ICCU Holdings. ICCU is putting together a consortium to develop the engine, and plans to use the Archers' design to build generators that will provide clean, green power units for housing estates.

All engines work on the principle of burning fuel in a confined space and using the resulting rise in pressure to generate mechanical energy. In an Otto or Diesel engine, large losses of energy arise from incomplete combustion of the fuel. Further waste comes from losses to friction and noise as the pistons are driven up and down. As a result, the average car engine burns four times more fuel than it would need to move the vehicle were it as efficient as the laws of thermodynamics permit. By contrast, turbine engines, such as those used in aircraft, waste only about one-third of the fuel they burn. They do so because rotation is smoother than the up-and-down motion of pistons, and also because they are able to suck in vast amounts of air and thus burn the fuel with a lot of oxygen, which means that combustion is more or less complete.

The “Archer-Trice” engine, as it is known, combines pulse jets with turbines. John Archer describes the engine as looking like a propeller in a doughnut. In the Archer-Trice engine, gaseous fuel is fed into a cylinder, which then rotates to compress the space in which the gas is held. The design of the rotor gives the air intake a large “swept volume”—in other words, a vast amount of air is sucked in, even though the engine itself is stationary. A sparking plug ignites the gas, providing the pulse which produces power to turn the cylinder. The compressed burning gas is released through the exhaust.

Water is injected into the system to produce steam, providing a way of cooling the engine (which, in a moving machine, is another of the services provided by the airstream). And the engine is computer-controlled to ensure that all the stages are timed to perfection and that it operates at maximum efficiency. Currently, the engine is around 40% efficient, and the Archers hope to improve on this.

John and Laurie Archer are both electrical engineers, and have always been interested in how engines work. But their decision to try to design their own engine came after they built a D-type Jaguar car together in the 1980s. “We realised that the car engine was hugely inefficient and thought we could try to make something better,” says John Archer.

What may once have seemed like a crazy idea is now being taken seriously. At the moment, the Netherlands imports much of its electricity from neighbouring countries, meaning that a significant amount of energy is wasted in transmission. ICCU is keen to develop a more efficient and environmentally friendly power supply, and the Archer-Trice engine could provide a solution.

The firm is investing several million euros in the project, and within nine months it hopes to use the Archer-Trice design to produce an efficient, natural-gas-fuelled generator capable of powering 1,000 homes. As a bonus, the steam from the cooling system can be used to heat the homes, instead of being wasted. If all goes to plan, ICCU will be able to set up a network of local generators that will reduce reliance on large power stations. They may even be able to sell surplus power back to the national grid.

In the meantime, John and Laurie Archer are still refining their engine design and waiting for the day when Archer-Trice engines are taken up by the car industry. That may be a while coming. But you never know. Perhaps in another 100 years the name “Archer” will stand alongside those of Otto and Diesel in the history books and maintenance manuals.

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Sticky tape

Echoes of geckos

Jun 5th 2003
From The Economist print edition

A new adhesive tape works like a lizard's foot

ENGINEERS frequently admire the ways in which living creatures solve problems. However, they rarely manage to emulate them. But Andrey Geim, from Manchester University, in England, and his colleagues have done so. In a paper just published in *Nature Materials*, they describe how they replicated the way that geckos cling to ceilings in a new, glue-free adhesive tape.

A gecko's powers come from tiny hairs on the soles of its feet. Each hair sticks to any surface it touches by a combination of capillary action due to water it has absorbed and so-called van der Waal forces—electrostatic interactions between individual molecules. Though the attraction between a hair and a surface is tiny, geckos have zillions of such hairs, and the sum of the interactions is enough to hold a lizard to the ceiling.

Dr Geim and his colleagues used electron-beam lithography (a technique employed in the manufacture of computer chips) to fabricate small pieces of plastic tape that had hairlike protuberances on their surfaces. They created a range of surfaces with hairs measuring between a fifth of a micron (millionth of a metre) and four microns in diameter, and with around 100m hairs per square centimetre. Dr Geim reckons that a person wearing gloves made from the tape could stick to a wall as well as a gecko does. He has not yet done that experiment, though, for the pieces of tape that the team has produced so far are only a square centimetre in area.

There is still some way to go before gecko tape becomes a commercial reality. The prototype is delicate stuff, losing its adhesive powers after three or four uses. And electron-beam lithography does not lend itself to mass production. But if it could be made cheaply, geckotape would have many uses. Move over Spiderman: Geckoman is on his way.

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Flying

Wings of the wind

Jun 5th 2003
From The Economist print edition

Corbis

The Wright brothers and their fellow flying pioneers were egotistical, driven and brave. How else would they have succeeded in taming the skies?

ALL those seeking to celebrate the centenary of that famous first flight in a heavier-than-air machine at Kill Devil Hill, Kitty Hawk, North Carolina, in 1903, have a handicap to surmount. In the daring era of the early aviators, Wilbur and Orville Wright were ravens in a sky full of bluebirds. The fact that they were clever, dogged and bold cannot disguise the truth that the brothers were also malevolent.

James Tobin strives to make them more likeable by using their diminutive names throughout his biography: Wilbur Wright is called Will and Orville, his kid brother, Orv. Much is made of Wilbur's kindnesses towards their invalid mother and of the loyalty both boys showed to their father, a cantankerous bishop embroiled in seemingly eternal disputes with his Church of the United Brethren in Christ.

Richard Hallion, in a history of flight that covers boomerangs, kites, rockets, toy helicopters, hot-air balloons, airships and aeroplanes, shares Mr Tobin's admiration for the brothers' achievements. He quotes with enthusiasm Bill Gates's belief that the Wrights "created the single greatest cultural force since the invention of writing...bringing people, languages, ideas and values together".

But, unlike Mr Tobin, he has no inhibitions in admitting that, thanks to their rigid upbringing, both brothers could also be obsessive, stubborn and suspicious. They were, in the words of one awed observer of their activities, "two of the workingest boys I ever saw". Neither had any interest in women nor wanted to make friends outside their immediate family. When their sister, Katharine, married late in life, after Wilbur's death, Orville regarded it as a betrayal. He refused to attend the wedding or to have anything to do with Katharine afterwards.

The Wright brothers, in short, were nerds before their time; dour men clothed year-round in woollen suits, plain caps and shirts with starched collars. Other aviators rhapsodised about the joys of flight, and dreamt of treaties to demilitarise the skies. When Wilbur was asked what his machine was good for, he replied bluntly, "War". Obsessed with money, the Wrights were ready to sell their invention to just about any country, however hostile to America. And with their

To Conquer the Air: The Wright Brothers and the Great Race for Flight
By James Tobin

The Free Press; 448 pages; $28.
Published in Britain as "First to Fly: The Unlikely Triumph of Wilbur and Orville Wright". John Murray; £25

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Taking Flight: Inventing the Aerial Age from Antiquity Through the First World War
By Richard P. Hallion

interminable patent suits they richly earned their reputation as competition-stifling monopolists.

Stuck with the Wrights, Mr Tobin concentrates understandably on his subjects' deeds rather than on their characters. As a general historian of aviation, Mr Hallion is more fortunate in being able also to celebrate truly magnificent men and their flying machines: Ferdinand Adolf August Heinrich Graf von Zeppelin, for instance, and his mammoth dirigible. This testy count was not the sort to seek satisfaction in the courts. Once, when criticised, he promptly challenged his critic to a duel. Only the intervention of the Kaiser stayed his hand. Just as colourful was Clément Agnès Ader and his Eole, a flying machine based on his close observation of birds, flying insects and bats. Using chloroformed mice as bait, Ader used to catch eagles, cage them and then, while they were still woozy with the drug, gently move their wings and study their articulation.

By common consent, the most magnificent flyer of them all was Alberto Santos-Dumont, the subject of Paul Hoffman's biography. As the heir to a Brazilian coffee fortune, this fastidious, dapper, man-about-town in Paris had no need to profit from his aviation activities. He despised patents and, unlike the Wrights, made the blueprints of his engine-powered airships available to anybody. He ostentatiously gave away much of the prize-money he won to the poor and, as Mr Hoffman tells it, “saw the flying machine as a chariot of peace, bringing estranged cultures in contact with one another”.

Today's aerobatic pilots, the heroes of Joshua Cooper Ramo's book, have no such vision. They seek to thrill, not to inspire, their public. The author has himself caught the fever, and he writes so well that it is infectious. In “No Visible Horizon” he captures the exhilaration of flying at the very limits of a pilot's and a machine's endurance; and it is clear throughout that he enjoys nothing more than the mouth-parching risks of a stunt flight that causes his body to seize up, his hands to shake and his head to throb with pain. For the aerobatic elite this dangerous sport presents, he claims, a perfect act of faith, an epiphany, an early glimpse of heaven.

Some readers will share in the excitement of his pulsating prose. Others will put him in the same category as the stunt pilot who, he says, had “the adrenaline needs of a 14-year-old and the judgment of a toddler”. But most will concede, however grudgingly, that today's stuntmen are as brave as their pioneering forebears. One pilot in 50 dies in this *auto-da-fé* sport each year. The death toll among the early aviators was even higher, with the difference that theirs was a calling, not a sport. As Otto Lilienthal, the Prussian inventor of the hang-glider, once said: *Opfer müssen gebracht werden* (sacrifices must be made). He died a short while later, after a crash.

To Conquer the Air: The Wright Brothers and the Great Race for Flight.
By James Tobin.
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By Richard P. Hallion.
Oxford University Press; 531 pages; $35 and £20

Wings of Madness: Alberto Santos-Dumont and the Invention of Flight.
By Paul Hoffman.
Hyperion; 320 pages; $24.95.
Fourth Estate; £18.99

No Visible Horizon: Surviving the World's Most Dangerous Sport.
By Joshua Cooper Ramo.
Simon & Schuster; 288 pages; $24

Oxford University Press; 531 pages; $35 and £20

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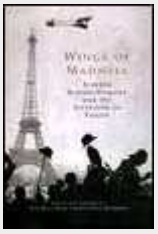

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By Joshua Cooper Ramo

Simon & Schuster; 288 pages; $24

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About sponsorship

UN peacekeeping

Beating up the boys in blue

Jun 5th 2003
From The Economist print edition

It's no fun being a UN peacekeeper

“RESOLUTIONS are like hotdogs,” an American diplomat told Linda Polman. “If you know how they make 'em, you don't want to eat 'em. You just swallow. No questions asked.”

Ms Polman, a Dutch journalist who covered several peacekeeping operations that arose out of UN resolutions during the 1990s, looks here at what happened in Somalia, Haiti and Rwanda, where the UN missions ultimately failed. Her dismaying conclusion will surprise no one: western countries may favour rapid military intervention, but they are less enthusiastic about bearing the protracted heat of state- building, which is why they often leave such a mess in the kitchen.

A handy solution is to pass the responsibility on to UN forces. Many of the UN soldiers, in their trademark baby-blue hats, come from poor developing countries. Often they are asked to keep a peace that never existed or to restore an imaginary democracy. When their efforts fail, it is inevitably the institution that is blamed. “The UN should learn to say no,” President Clinton clamoured in 1993 after the Somali disaster. An angry UN secretary-general, Boutros Boutros-Ghali, had to remind him that “it is not the UN which says yes or no to anything. It is the member states.”

We Did Nothing: Why the Truth Doesn't Always Come Out When the UN Goes In
By Linda Polman

Viking; 256 pages; £12.99

Buy it at
Amazon.co.uk

America chose to intervene in Somalia, then in the grip of civil war, to protect the delivery of food aid. American troops, lit up by flashing cameras, landed on Somali beaches. The food convoys reached their destination and famine was averted. The American forces had done their job, but the civil war continued. The UN, under American command at least at first, was left to work out how to conjure up peace. When 18 American soldiers were later killed, the United States, followed by other western countries, withdrew their troops, leaving the UN to clear up behind them.

PA

In Haiti, the story was depressingly similar. After America claimed to restore democracy in 1993 by bringing back the deposed president, Jean-Bertrand Aristide, the UN was left in charge of upholding it. “It is not the restoration of democracy that I am witnessing,” Ms Polman wrote at the time. “It is the American army erecting, at breathtaking speed, the set for a movie about democracy.” As in her writing about Somalia, Ms Polman brings out the colourful absurdity of daily life during the so-called multinational invasion when 20,000 American soldiers wade ashore accompanied by 266 from Jamaica, Barbados, Belize and Trinidad, when a local thug planned to defeat the Americans with the help of black magic and a dose of AIDS in powder form, and self-styled “body guides” were charging photographers a fee to find corpses that had been left by the roadside to rot.

Ms Polman's journey ends in Rwanda, a year after the 1994 genocide, when 150,000 Hutu refugees were forced out of their camp at Kibeho by the Tutsi authorities who wanted them to return to their villages. On hand were 80 hapless UN peacekeepers; all they could do was to help children who had been trampled or shot in the crush to die more comfortably by laying them out on the ground.

Ms Polman's account of what turned out to be the worst decade of UN peacekeeping is horrifying, absurd and, at times, killingly funny. The string of disasters led eventually to Lakhdar Brahimi's 2000 report on UN peacekeeping reform, which has brought about a number of changes. Whether the improvements have gone far enough to promote real state-building will be tested in the next few weeks in Congo, where UN soldiers are supposed to be stopping another intractable war in another uncontrollable nation.

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By Linda Polman.
Viking; 256 pages; £12.99

Left holding the babies

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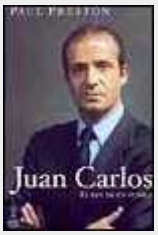
Modern Spanish history

King and country

Jun 5th 2003
From The Economist print edition

A VISITOR to the exiled Spanish royal family recalls how he once watched the then four-year-old Prince Juan Carlos being photographed in a cavalry officer's uniform for the sake of the monarchist sympathisers in Spain who had sent it to him. For more than an hour, the prince obliged the photographer without complaint until a nanny took him away, removed his boots—and found the feet inside chafed raw. “His father, Don Juan,” the visitor observed, “had instilled in him from a very early age that ‘Bourbons don't cry except in bed'.”

Juan Carlos: El Rey de un Pueblo
By Paul Preston



Plaza Janés; 654 pages; euro25

Buy it at Amazon.co.uk

Paul Preston is a British academic, and this is a scholarly biography. But its central theme is very much a human one: the often cruel demands made of the man who was to give Spain back its democracy.

Sensing that it would contribute to the restoration of the monarchy, his parents handed the young prince over to be brought up by Spain's dictator, Francisco Franco, a man whom they mistrusted and despised. The prince never attended normal school—his classrooms were created for him and staffed by august tutors, many of whom had no experience of teaching schoolchildren. As the symbol of a dynasty hated by many Franco supporters, he was routinely exposed to media ridicule. His romantic life was fatally circumscribed by dynastic considerations: he wrote to one girlfriend, declaring: “I love you more than anyone right now, but I realise—and it is my obligation, moreover—that I cannot marry you.”

At the age of 18, it is likely that Juan Carlos accidentally killed his younger brother while they were playing with a pistol. Franco ordered the incident to be covered up, though neither Don Juan nor his son denied subsequent claims that Juan Carlos's finger was on the trigger when the fatal shot was fired. Mr Preston quotes a friend of the dead prince who told him that, as Don Juan turned away from the body of his dead son, he said to Juan Carlos: “Swear to me it wasn't deliberate.”

The author is understandably astonished that such a traumatic upbringing should have produced such a cool-headed adult, a monarch who edged Spain towards democracy without provoking a bloodbath and almost single-handedly thwarted a coup in 1981 aimed at reinstalling military government.

However, Mr Preston's wonder erodes his critical faculties. He shows in detail how the king failed to see that his former military tutor, General Alfonso Armada, was the linchpin of the 1981 plot, even though the general had made his ambitions clear enough at a string of meetings over the previous months. Yet he never asks whether this was a failure of judgment. Nor is there more than a hint at Juan Carlos's sometimes clumsy reaction to the growing media interest in his private life and particularly what his biographer coyly calls “his enthusiasm for attractive women”.

Still, this is that rare thing—a work of academic history that is also an absorbing narrative. And its great merit is to remind us that at the centre of all the dynastic wrangling, political conspiracy and media speculation stands a man who has often felt very alone.

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By Paul Preston.
Plaza Janés; 654 pages; euro25

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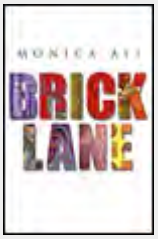
New British fiction

East End moniker

Jun 5th 2003
From The Economist print edition

MONICA ALI'S first novel, “Brick Lane”, was still in manuscript form when her name appeared on a list of Britain's 20 best young writers. The list was compiled by *Granta*, an influential British literary magazine, and also included Zadie Smith, with whom Ms Ali is bound to be compared. Both are attractive, Oxbridge-educated women of exotic provenance (Ms Smith is half Jamaican, Ms Ali was born in Bangladesh). And “Brick Lane”, like Ms Smith's noisily hyped 2000 debut, “White Teeth”, is a multi-generational saga of immigrant experience.

Brick Lane
By Monica Ali



Doubleday; 413 pages; £12.99.

Buy it at
Amazon.co.uk

An arranged marriage takes Ms Ali's heroine, Nazneen, from a village in Bangladesh to a gloomy council estate in east London. It is 1985; Nazneen is 18 years old. Her pompous, middle-aged husband, Chanu, quickly rolls out the blueprint for her new life. She will cook and clean and minister to his corns. She will seldom leave their flat, and her only friends will be other Bangladeshi wives.

Years pass in this fashion. The couple's first child, a son, dies in infancy, but two healthy daughters follow. Nazneen supplements the family's income as a seamstress, working from home. In her idle moments she daydreams about becoming a figure skater like those she has seen on television, gliding effortlessly across the ice in a flash of sequins.

Then comes the thunderbolt. Nazneen falls for the hunky leader of a group of local Islamic radicals. This firebrand in tight jeans brings out both Nazneen's dormant sensuality and some of the most overwrought writing in the book: “Though they began with a gentle embrace, tenderness could not satisfy her, nor could she stand it, and into her recklessness she drew him like a moth to a flame.”

Such purple passages aside, Nazneen emerges as a credible, quietly dignified character. So, in a different way, does Chanu, as Ms Ali shows his longing for respect and success in his adoptive country gradually giving way to disillusionment and bitterness. “Brick Lane” is an accomplished and engaging, if not dazzling, first novel. It introduces Ms Ali as a writer to watch. She may well go on to prove the pundits at *Granta* right.

Brick Lane.
By Monica Ali.
Doubleday; 413 pages; £12.99.
To be published in America by Scribner in September

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The history of Hong Kong

Empire discontinued

Jun 5th 2003
From The Economist print edition

Get article background

AS A title, “The Fall of Hong Kong” suggests one of those breathless works, usually from a very short and very British perspective, that were rushed out around the time of Hong Kong's return to China at midnight on June 30th 1997. This book is very different, and very good.

Philip Snow's organising thesis is that Britain lost Hong Kong not on that choreographed day of military pomp and precision, but on a humiliating Christmas Day in 1941, when the commanding general of the Japanese forces received the British surrender from the governor in a Peninsula hotel without electricity. This was the first crown colony Britain had lost to force since Yorktown. It had been a shambolic defence, over in days, and it left a nasty taste in the mouths of both the British and those over whom they ruled.

That mattered, for after the war Britain had a second innings, as Mr Snow puts it: by rushing to receive the Japanese surrender in Hong Kong before the Chinese nationalists got there, it picked up the colony where it had left off. This time round, almost everyone agreed, though, there was no room for British colonial aloofness. With the departure of most of the former colonial blimps—those who took tiffin and called 60-year-old Chinese waiters “boy”—a fresher breed of administrator came in. The ordinances restricting residency on the Peak mainly to whites and a small handful of Eurasians were done away with after 1945. Censorship of the Chinese press was lifted. Mixed marriages were less frowned upon and more local Chinese were recruited into the government apparatus. The result was a much more fluid society. Certainly, British institutions underpinned a general and very considerable rise in prosperity. Yet by the end, the British themselves hardly mattered at all.

Much of the broader history, such as the ways in which Hong Kong mattered to Britain, Japan and, not least, those fighting for China's independence, has been recounted elsewhere, though perhaps not with Mr Snow's talent for the telling detail or anecdote. Where he comes into its own is in his use of Japanese and Chinese as well as British sources, which offer a much more nuanced picture than has appeared before in English of life among Hong Kong's different communities before and during the Japanese occupation.

Reaction to the Japanese was ambivalent; this was a place, after all, whose businessmen had petitioned earlier in the century for the adoption of the yen. For some, such as triad groups and other vigilantes, the Japanese coming was a boon. For the colony's 5,000-odd Indians also, the invasion meant an abrupt elevation in their social status, at least at the beginning. Indians believed Japanese assurances of support for their own cause of independence, though that was not to last.

For the great mass of the Chinese population, the author makes clear, life during the occupation was far more brutal even than for the western internees in the Stanley concentration camp. In the orgy that followed victory, Japanese soldiers murdered and pillaged; an estimated 10,000 women were raped. Very soon, and despite heroic kindnesses of some individual Japanese, Hong Kong came to be regarded simply as a depot for refuelling an imperial war machine that was fast running out of steam. Many Hong Kong Chinese starved, if they were not first bayoneted or beaten to death.

After the war, most evidence of the Japanese occupation was scrubbed out. Those born to rape victims in September and October 1942 were quietly absorbed into the local population. The chief reminders today

The Fall of Hong Kong: Britain, China and the Japanese Occupation
By Philip Snow

Yale University Press; 384 pages; $35 and £25

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of the Japanese are the elegant improvements to Government House undertaken by Governor Isogai, and the vicious dogs in Hong Kong's country parks, descendants of the Japanese army mastiffs let out as their masters fled.

Largely forgotten, too, is the collaboration of the local, mainly Eurasian, business elite with the invading Japanese. Was there much to blame them for? Some of the British thought so. Yet what “the gentry”, as Mr Snow calls them, wanted was to get back to running their businesses—and to do their best to protect Hong Kong's interests. During the war, the gentry did much to help the starving Chinese, founding Hong Kong's first central welfare agency, for instance, and setting up a company to supply subsidised rice. Ordinary folk could not have been helped without collaboration with the Japanese. Britain's new administrators of Hong Kong swept aside the charges of treason that were levelled against the gentry, and co-opted them back into colonial structures.

Echoes of that decision could still be heard half a century later. Chris Patten and his outgoing administration used to express contempt for those co-opted gentry, often the children of the post-war elite, deemed to be toadying too readily to Beijing. If this was no longer treason, the carpers said loudly enough to be heard by those they were criticising, it was at least disloyalty. Yet one thing the colonial administrators chose not always to understand was the sentiment, best summed up by one senior Hong Kong Chinese official, who told *The Economist* at the time: “Let's face it, our loyalty has never been to the Queen. But it has been to Hong Kong.”

The Fall of Hong Kong: Britain, China and the Japanese Occupation.
By Philip Snow.
Yale University Press; 384 pages; $35 and £25

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Piano manufacturers

Making the sound of music

Jun 5th 2003
From The Economist print edition

A tale of three piano makers

MUSIC lovers in Berlin and New York have a choice of recitals this month as Steinway, Blüthner and Bechstein—three of the world's five top piano makers—celebrate their 150th anniversaries.

Since 1853, artists have praised their instruments. Claude Debussy remarked that piano music should only be written for Bechsteins. For Wilhelm Furtwängler, Blüthner was best. “Blüthner pianos can really sing, which is the most wonderful thing you can say about a piano.” Martha Argerich, an Argentinian-born artist, believes a Steinway sometimes plays better than the pianist—“a marvellous surprise”.

In business terms, the three fared very differently. Blüthner's factory near Leipzig was destroyed during an air raid in 1943. The Russian occupying forces allowed the family to rebuild it after the second world war, and the Blüthners retained a quarter of the company until 1972 when it was put under state control with Ingbert Blüthner-Haessler staying on as the factory manager. After 1989, the family bought back the company, which is now managed by Mr Blüthner-Haessler and his two sons.

Helene Bechstein, one of that manufacturer's co-owners, was a great supporter of the Nazis, which is why part of the Bechstein firm was confiscated during the denazification of corporate Germany at the end of the war. The family eventually sold out completely, but Bechstein's decline could not be halted and a decade ago it had to be rescued from bankruptcy by the city of Berlin. Only in the past ten years has Bechstein begun to regain some of its early strength; last year 3,000 new Bechsteins were built, compared with just 650 in 1993.

Meanwhile, Steinway thrived in America, establishing a near-monopoly in concert grands. Most attribute Steinway's success to clever marketing as well as to the quality of its pianos. It takes about a year to build a Steinway from 12,000 components and eight different kinds of wood including maple, birch, spruce and poplar. Each year Steinway's factories in Astoria, New York, and Hamburg, Germany, produce about 3,000 grand pianos—priced at up to $100,000—and 1,500 uprights, roughly the same production rate as a century ago.

Steinway is also skilful at marrying pianists to the brand, and there is an official roster of about 1,300 “Steinway artists”, from Alfred Brendel to Billy Joel. Musicians must own a Steinway to become a member of the club; in return, the nearest local salesroom will provide a piano wherever they are performing.

Even so, Steinway's top spot is hotly contested. Asian pianos have always been cheaper; now their quality is improving fast. And then there is Fazioli, a tiny piano maker founded in 1978 in the northern Italian town of Sacile. The Fazioli factory is close to the cradle of the piano. In Padua, not far away, an instrument builder called Bartolomeo Cristofori invented the piano 300 years ago. Steinway, Blüthner and Bechstein may not agree, but some artists believe that Fazioli now makes the best pianos in the world.

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Sloan Wilson

Jun 5th 2003
From The Economist print edition

Sloan Wilson, American novelist, died on May 25th, aged 83

AP

IN HIS best-known novel, “The Man in the Grey Flannel Suit”, about company life, Sloan Wilson has his main character saying, and saying often, “The important thing is to make money.” Well, why not? This was America, and money was needed to realise the American dream. Was this Sloan Wilson some kind of rebel questioning American values? Lots of people, the angry, the intrigued and the merely interested, bought the novel. At least 2m copies were sold. It was translated into 26 languages (Russian being an exception, the Soviet government assuming, incorrectly, that it was a paean to capitalism). The novel was made into a film starring Gregory Peck, and it is still selling. Whatever Mr Wilson was seeking to say about money in his book, it made him a rich man, although he would occasionally grumble that lawyers, accountants and the taxmen took a large slice of it.

These days, unflattering descriptions of company life and the domestic pressures that go with it are commonplace. The Enron affair destroyed any idea that all business was essentially wholesome. But in 1955, when “Grey Flannel” was first published, Mr Wilson seemed to be saying something new. Running a well-paid job to sustain a middle-class life incurred pressures that never eased: you needed a bigger house, a better car, private schools for your growing children and shop accounts for your wife so that she looked good when business clients had to be entertained at your home.

Other writers took up the theme. “The Organisation Man” by William Whyte, published in 1956, described how people not only worked for organisations but belonged to them as well: a man would be “so completely involved in his work that he cannot distinguish between work and the rest of his life, and is happy that he cannot”. The accomplishment of Mr Wilson and Mr Whyte (who died in 1999) was to start a debate about monetary success and quality of life that is still continuing.

Case of the tin frog

No one could have been more middle class than Sloan Wilson. His father was a university professor. Sloan went to Harvard. During holidays he sailed the family's 76ft schooner, once on a voyage to Cuba. When America entered the second world war in 1941 he served on warships in the Atlantic and the South Pacific. Service life, he recalled, provided a “certain sense of dignity”. Civilian life, he found, could take it away.

He had a friend who had been a highly-decorated airman and now worked for an advertising agency. His job was to decide whether people would prefer a rubber spider or a tin frog as a gift in their carton of breakfast cereal. “It haunted me and I thought, ‘What a terrible thing to reduce a man to.' ” He wrote for the *New Yorker* and other magazines about how former servicemen were adjusting, or not adjusting, to civilian life. *Time* magazine hired him as a writer in 1948, and while he was there he started “Grey Flannel”. There is a lot of Mr Wilson in the book. His main character, Tom Rath, says:

> I really don't know what I was looking for when I got back from the war, but it seemed as though all I could see was a lot of bright young men in grey flannel suits rushing around New York in a frantic parade to nowhere. They seemed to me to be pursuing neither ideals not happiness, they were pursuing a routine. For a long while I thought I was on the sidelines watching the parade, and it was quite a shock to glance down and see that I too was wearing

a grey flannel suit.

An egoistic character in the novel was based on Roy Larsen, president of *Time* while Mr Wilson worked there. The magazine's reviewer was one of the few who did not care for the book, calling it “upper middle-class soap opera”.

Mr Wilson wrote 15 novels, mostly about conformity, jobs, money, social climbing and divorce. One was a sequel to “Grey Flannel”, in which Tom Rath goes to Washington and gets a job with the Kennedy administration. Several had a sea background. “Ice Brothers”, published in 1979, is based on his experiences patrolling around Greenland in wartime. “A Summer Place”, published in 1958, again started a debate in America, this time about sexual attitudes among America's newly rich, the theme of the book. It too was made into a Hollywood film.

Just as there now seems nothing new to say about sex, has the argument over organisation man had its day? In the rich world, it is said, no one can now expect a job for life. An article in *Fortune* magazine observed, “New young workers know that loyalty is for suckers: a company can get rid of them at will.” The conformity that Mr Wilson wrote about is discouraged. Creativity is what matters. Forget about your suits. You can wear what you like to work, at least on Fridays.

Mr Wilson was not convinced. Things had not really changed, he said, at least in America. In most big corporations, “you're not going to go far unless you're a workaholic”. He said that his four children “are terribly overworked: it is the nature of young, ambitious people”. However, for Sloan Wilson and his wife Betty (together in our picture) there were preferable ways to spend your life. They lived on a boat on the Potomac River quite close to the sea in Virginia.

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Overview

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From The Economist print edition

America's economy is sending signals of renewed strength, especially from services, which account for around two-thirds of GDP. The Institute for Supply Management's (ISM) non-manufacturing index bounced back in May to 54.5 from 50.7 in April. The ISM's manufacturing index rose sharply to 49.4, but still showed falling activity. ISM readings above 50 indicate expansion; readings below 50 signal contraction.

The **Dow Jones Industrial Average** closed above 9,000 for the first time since August.

In the **euro area**, consumer-price inflation eased to 1.9% in the year to May. Business conditions deteriorated during the month, according to the European Commission; its business-climate indicator fell to –0.68 in May from an upwardly revised –0.54 in April. Consumer confidence in the euro area also inched down in May, after a slight recovery in April from nine-year lows.

Deflation continued in **Japan**, which saw its 44th straight month of annual price declines. Consumer prices fell by 0.1% in the year to April.

Canada's economy slowed to a 2.6% growth rate in the year to the first quarter.

Australia's GDP rose by 2.9% in the year to the first quarter, rising from the revised 2.7% growth seen in the year to the fourth quarter. Australia's economy has recently been one of the world's best performing.

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Output, demand and jobs

Jun 5th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 3.0	+ 3.6	+ 2.3	Q4	+ 4.0	Q1	6.1	Apr	6.3
Austria	+ 1.3	Q4	– 0.5	+ 0.9	+ 1.6	– 1.5	Dec	+ 0.9	Dec	4.3	May	4.1
Belgium	+ 1.3	Q1	+ 0.6	+ 1.0	+ 2.0	– 0.1	Mar	– 1.7	Mar	11.4	May†	10.4
Britain	+ 2.2	Q1	+ 0.3	+ 1.8	+ 2.5	– 0.8	Mar	+ 2.7	Apr	5.1	Mar††	5.1
Canada	+ 2.6	Q1	+ 2.4	+ 2.6	+ 3.1	+ 2.0	Mar	+ 2.2	Feb	7.5	Apr	7.6
Denmark	+ 1.2	Q1	+ 1.4	+ 1.4	+ 2.2	– 1.6	Mar	+ 5.8	Feb	5.8	Apr	5.0
France	+ 1.0	Q1	+ 1.0	+ 1.0	+ 2.2	+ 0.5	Mar	+ 2.1	Apr	9.3	Apr	8.9
Germany	+ 0.2	Q1	– 0.9	+ 0.2	+ 1.4	+ 0.5	Mar	+ 0.8	Apr	10.7	May§	9.7
Italy	+ 0.8	Q1	– 0.4	+ 0.9	+ 1.9	– 0.7	Mar	– 1.6	Mar†	9.0	Jan	9.0
Japan	+ 2.7	Q1	nil	+ 0.9	+ 0.9	+ 3.6	Apr	– 0.8	Mar	5.4	Apr	5.3
Netherlands	– 0.1	Q1	– 1.2	+ 0.2	+ 1.7	– 5.6	Mar	– 2.5	Dec	5.3	Apr**	3.9
Spain	+ 2.1	Q1	+ 1.9	+ 2.0	+ 2.7	– 4.2	Apr	+ 1.3	Mar	11.4	Apr	11.2
Sweden	+ 1.3	Q4	+ 1.2	+ 1.4	+ 2.3	– 3.9	Mar	+ 4.9	Apr	4.6	Apr†	3.8
Switzerland	nil	Q1	– 1.0	+ 0.7	+ 1.7	– 2.1	Q4	– 3.1	Feb	3.9	Apr†	2.5
United States	+ 2.1	Q1	+ 1.9	+ 2.2	+ 3.3	– 0.4	Apr	+ 4.9	Apr	6.0	Apr	5.9
Euro area	+ 0.8	Q1	nil	+ 0.8	+ 2.0	– 0.3	Mar	– 1.6	Mar	8.8	Apr	8.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q4	+ 2.8	na	na	– 2.3	Apr	+ 4.9	Feb	10.4	Apr†	10.4
Greece	+ 4.3	Q1	na	na	na	+ 0.8	Mar	na		na		na
Iceland	– 3.0	Q4	na	na	na	– 0.3	2002	na		3.9	Apr†	2.6
Ireland	+ 6.4	Q4	na	na	na	– 5.6	Mar	+ 1.7	Mar	4.6	Apr	4.2
Luxembourg	+ 1.0	2001	na	na	na	– 2.1	Feb	+ 4.6	Jan	3.6	Apr	2.7
New Zealand	+ 4.2	Q4	+ 2.0	na	na	+ 5.9	Q4	+ 6.4	Q1	5.0	Q1	5.3
Norway	+ 0.6	Q1	+ 1.3	na	na	+ 2.2	Mar	+ 4.5	Apr	4.4	Q1	4.1
Portugal	– 1.3	Q4	– 3.1	na	na	– 3.1	Apr	+ 2.4	Apr	6.4	Q1†	4.5

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Jan-Mar; claimant count rate 3.1% in Apr. §EU harmonised rate 9.4% in May. **Feb-Apr.

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Prices and wages

Jun 5th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 3.4	Q1	+ 2.9	+ 2.7	+ 2.5	+ 3.0	Q1	+ 0.5	+ 4.3	Q1	+ 4.1
Austria	+ 1.3	Apr	+ 1.8	+ 1.5	+ 1.3	+ 0.8	Apr	– 0.5	+ 2.2	Apr	+ 2.4
Belgium	+ 1.0	May	+ 1.3	+ 1.4	+ 1.3	+ 0.2	Apr	– 0.2	+ 2.4	Q1	+ 3.1
Britain	+ 3.1	Apr	+ 1.5	+ 2.8	+ 2.4	+ 1.7	Apr	+ 0.2	+ 3.4	Mar	+ 2.9
Canada	+ 3.0	Apr	+ 1.7	+ 3.1	+ 2.1	– 0.1	Apr	– 1.1	+ 1.6	Mar	+ 3.2
Denmark	+ 2.5	Apr	+ 2.4	+ 2.4	+ 1.9	– 0.5	Apr	+ 0.3	+ 3.9	Q4	+ 4.1
France	+ 2.0	Apr	+ 2.0	+ 1.8	+ 1.4	+ 1.0	Apr	– 0.6	+ 2.9	Q1	+ 4.0
Germany	+ 0.7	May	+ 1.2	+ 1.0	+ 0.9	+ 0.3	Apr	– 0.5	+ 3.7	Mar	+ 2.6
Italy	+ 2.7	May	+ 2.3	+ 2.4	+ 1.9	+ 2.0	Apr	– 0.8	+ 1.7	Apr*	+ 2.3
Japan	– 0.1	Apr	– 1.1	– 0.5	– 0.5	– 0.8	Apr	– 2.3	+ 1.9	Apr	+ 0.4
Netherlands	+ 2.3	May	+ 3.3	+ 2.5	+ 2.1	+ 2.5	Apr	– 1.0	+ 2.7	Apr	+ 3.9
Spain	+ 3.1	Apr	+ 3.6	+ 3.0	+ 2.6	+ 1.4	Apr	+ 0.5	+ 3.9	Q4	+ 3.7
Sweden	+ 2.3	Apr	+ 2.5	+ 2.4	+ 1.8	– 0.1	Apr	– 0.7	+ 0.9	Mar	+ 4.7
Switzerland	+ 0.4	May	+ 0.6	+ 0.7	+ 0.9	– 0.3	Apr	– 1.4	+ 1.8	2002	+ 2.5
United States	+ 2.2	Apr	+ 1.6	+ 2.3	+ 1.7	+ 2.4	Apr	– 2.1	+ 3.1	Apr	+ 3.2
Euro area	+ 1.9	May	+ 2.0	+ 1.9	+ 1.5	+ 1.7	Apr	– 0.6	+ 3.4	Q4	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.1	Apr	+ 1.8	na	na	+ 3.1	Apr	– 1.0	+ 4.1	Q1	+ 3.2
Greece	+ 3.4	Apr	+ 3.8	na	na	+ 1.0	Apr	+ 3.7	na		na
Iceland	+ 2.2	May	+ 5.9	na	na	+ 3.3	Jun	+ 7.4	+ 5.6	Apr	+ 8.0
Ireland	+ 4.3	Apr	+ 4.8	na	na	– 7.5	Apr	+ 0.4	+ 6.8	Q4	+ 7.8
Luxembourg	+ 2.2	Apr	+ 2.1	na	na	+ 2.8	Mar	– 3.0	– 0.4	Feb	+ 2.5
New Zealand	+ 2.5	Q1	+ 2.6	na	na	– 0.9	Q4	+ 1.8	+ 2.3	Q1	+ 2.1
Norway	+ 2.9	Apr	+ 0.5	na	na	– 4.9	Apr	– 4.7	+ 5.3	Q1	+ 4.6
Portugal	+ 3.7	Apr	+ 3.6	na	na	+ 2.0	Apr	+ 0.2	+ 1.1	Apr	+ 0.1

*New series.

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Economic forecasts

Jun 5th 2003
From The Economist print edition

The Economist poll of forecasters, June averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2003	2004	2003	2004	2003	2004	2003	2004
Australia	2.7/3.5	3.0/4.4	3.0	3.6 (3.5)	2.7	2.5	−4.3(−4.7)	−3.6 (−4.0)
Austria	0.6/1.1	1.2/2.1	0.9	1.6 (1.8)	1.5	1.3	−0.1	−0.3 (−0.2)
Belgium	0.6/1.5	1.3/2.3	1.0 (1.1)	2.0 (2.1)	1.4	1.3 (1.4)	4.9 (5.0)	5.0
Britain	1.4/2.2	1.8/3.0	1.8	2.5 (2.4)	2.8	2.4	−1.6	−1.5 (−1.4)
Canada	2.0/3.4	2.6/3.9	2.6 (2.7)	3.1 (3.2)	3.1	2.1 (2.2)	1.6 (1.5)	1.5 (1.6)
Denmark	0.9/2.0	1.9/2.5	1.4 (1.5)	2.2	2.4 (2.3)	1.9	2.4 (2.3)	2.4 (2.2)
France	0.5/1.4	1.7/3.1	1.0 (1.2)	2.2 (2.1)	1.8	1.4	1.7 (1.8)	1.5
Germany	−0.1/0.5	1.0/2.0	0.2 (0.4)	1.4 (1.5)	1.0 (1.1)	0.9	2.0 (1.9)	1.6
Italy	0.6/1.3	1.3/2.5	0.9 (1.0)	1.9	2.4 (2.3)	1.9	−0.4(−0.3)	−0.3
Japan	0.0/1.3	0.0/1.8	0.9 (0.7)	0.9 (0.8)	−0.5 (−0.6)	−0.5	2.5 (2.7)	2.6 (2.9)
Netherlands	−0.2/0.8	1.2/2.8	0.2 (0.5)	1.7 (1.6)	2.5	2.1	2.9 (3.1)	3.1
Spain	1.7/2.5	2.2/3.5	2.0 (2.1)	2.7 (2.6)	3.0	2.6	−2.2	−2.2 (−2.1)
Sweden	0.9/1.7	2.0/2.8	1.4 (1.5)	2.3	2.4	1.8	3.6	3.6 (3.5)
Switzerland	0.5/1.0	1.0/2.5	0.7 (0.8)	1.7 (1.6)	0.7 (0.8)	0.9	11.7	11.7
United States	1.3/2.8	1.7/4.3	2.2	3.3 (3.2)	2.3	1.7	−5.3	−5.4
Euro area	0.5/1.1	0.8/4.1	0.8 (1.1)	2.0 (2.1)	1.9	1.5	0.7 (0.8)	0.6 (0.7)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, UBS Warburg

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table of these forecasts also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has sharply lowered its forecast for growth in the euro area this year, from 1.1% in May to 0.8%. It has become especially gloomy about the outlook for the economies of Germany and the Netherlands, both of which are forecast to grow by just 0.2% in 2003. The panel has also trimmed its growth forecast for the euro area in 2004 to 2.0%. However, it is now a bit more optimistic about the recovery next year in Britain and the United States. Japan is forecast to grow by 0.9% a year in both 2003 and 2004.

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Money and interest rates

Jun 5th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 4th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.0	+10.8	Apr	4.78	5.10	4.37	4.87	6.29	5.67
Britain	+ 8.6	+ 8.0	Apr	3.59	4.14	3.31	4.06	5.21	5.64
Canada	+ 6.3	+ 5.8	Apr	3.13	2.68	3.11	4.41	5.55	6.35
Denmark	+ 7.4	+ 9.7	Apr	2.41	3.65	2.21	3.85	5.34	5.23
Japan	+ 4.7	+ 1.4	Apr	0.02	0.02	0.04	0.51	1.36	0.61
Sweden	+ 2.2	+ 5.9	Mar	2.98	4.29	3.03	4.10	5.54	3.46
Switzerland	+27.5	+11.3	Apr	0.28	1.25	0.30	2.13	3.29	3.01
United States	+ 5.3	+ 6.5	Apr	1.18	1.79	1.19	3.29	5.04	5.33
Euro area†	+11.1	+ 8.7	Apr	2.19	3.47	2.01	3.63	5.06	3.74

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.36%, Japan No.250 0.52%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jun 5th 2003
From The Economist print edition

1995=100

	May 27th	Jun 3rd*	% change on one month	% change on one year
Dollar index				
All items	77.1	76.9	+ 1.9	+10.0
Food	79.1	77.6	− 0.5	+10.2
Industrials				
All	74.4	75.9	+ 5.5	+ 9.7
Nfa†	75.9	76.8	+ 3.4	+10.6
Metals	73.1	75.2	+ 7.5	+ 8.9
Sterling index				
All items	74.1	74.4	+ 1.0	− 1.2
Euro index				
All items	85.4	86.3	− 1.3	−11.4
Yen index				
All items	95.9	97.2	+ 2.7	+ 5.4
Gold				
$ per oz	370.65	364.75	+ 6.4	+12.1
West Texas Intermediate				
$ per barrel	29.22	30.68	+19.2	+23.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jun 5th 2003
From The Economist print edition

Market indices

	Jun 4th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	2,996.6	3,049.6	2,673.3	+ 0.7	-12.9	+ 0.7	+18.9
Austria (ATX)	1,290.6	1,325.7	1,120.2	+ 0.4	-25.7	+12.2	+24.9
Belgium (Bel 20)	1,964.6	2,074.1	1,426.6	+ 2.9	-46.6	- 3.0	+ 8.0
Britain (FTSE 100)	4,126.6	4,129.3	3,287.0	+ 1.3	-40.5	+ 4.7	+ 6.2
Canada (Toronto Composite)	7,001.3	7,001.3	6,228.6	+ 2.4	-38.5	+ 5.8	+23.0
Denmark (KBX)	182.0	182.9	145.0	+ 1.6	-39.7	+ 9.4	+21.8
France (SBF 250)	2,065.0	2,144.8	1,630.1	+ 3.4	-53.0	+ 0.6	+11.9
(CAC 40)	3,063.9	3,210.3	2,403.0	+ 3.9	-55.7	nil	+11.3
Germany (DAX)	3,080.0	3,157.3	2,203.0	+ 5.5	-61.8	+ 6.5	+18.5
Italy (BCI)	1,164.6	1,169.1	959.4	+ 1.9	-46.6	+ 6.7	+18.7
Japan (Nikkei 225)	8,557.9	8,790.9	7,607.9	+ 3.9	-78.0	- 0.2	- 0.3
(Topix)	850.9	865.4	770.6	+ 3.5	-70.5	+ 0.9	+ 0.8
Netherlands (AEX)	289.7	337.3	218.4	+ 4.0	-58.7	-10.2	- 0.1
Spain (Madrid SE)	693.3	693.3	576.8	+ 2.6	-39.5	+ 9.3	+21.7
Sweden (Affarsvarlden Gen)	150.6	153.4	127.8	+ 1.1	-62.4	+ 3.7	+15.7
Switzerland (Swiss Market)	4,748.5	4,965.3	3,675.4	+ 1.8	-43.6	+ 2.5	+ 7.9
United States (DJIA)	9,039.0	9,039.0	7,524.1	+ 2.8	-22.9	+ 8.4	+ 8.4
(S&P 500)	986.2	986.2	800.7	+ 3.5	-35.4	+12.1	+12.1
(NASDAQ Comp)	1,634.7	1,634.7	1,271.5	+ 4.6	-67.6	+22.4	+22.4
Europe (FTSE Eurotop 300)*	842.8	890.8	682.7	+ 2.5	-50.6	- 1.7	+ 9.4
Euro area (FTSE Ebloc 100)*	721.4	757.2	565.7	+ 3.5	-53.5	+ 0.4	+11.7
World (MSCI)†	876.0	876.0	710.8	+ 3.0	-39.5	na	+10.6
World bond market (Citigroup)‡	572.6	579.1	518.6	+ 0.2	- 0.2	na	+ 9.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jun 5th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Jun 4th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Jun 4th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 9.0	Apr	− 20.8	Q1	− 4.3	− 3.6	83.1	78.2	1.50	1.75	2.46	1.76	1.27	0.2
Austria	+ 0.7	Feb	+ 1.4	Mar	− 0.1	− 0.3	102.0§	100.1	0.86	1.07	1.40	–	0.72	-1.3
Belgium	+ 16.4	Mar	+ 11.4	Jan	+ 4.9	+ 5.0	102.0§	98.8	0.86	1.07	1.40	–	0.72	nil
Britain	− 56.8	Mar	− 13.1	Q4	− 1.6	− 1.5	97.9	103.2	0.61	0.69	–	0.72	0.52	-1.9
Canada	+ 36.4	Mar	+ 14.0	Q1	+ 1.6	+ 1.5	85.9	77.9	1.36	1.54	2.22	1.59	1.14	1.1
Denmark	+ 8.7	Mar	+ 5.5	Mar	+ 2.4	+ 2.4	106.9	102.7	6.36	7.93	10.4	7.42	5.35	1.6
France	+ 8.4	Mar	+ 28.6	Mar	+ 1.7	+ 1.5	105.2§	101.4	0.86	1.07	1.40	–	0.72	-3.6
Germany	+123.0	Mar	+ 48.0	Mar	+ 2.0	+ 1.6	102.5§	98.2	0.86	1.07	1.40	–	0.72	-3.7
Italy	+ 6.0	Mar	− 11.5	Mar	− 0.4	− 0.3	75.0§	72.3	0.86	1.07	1.40	–	0.72	-2.4
Japan	+ 94.7	Mar	+109.9	Mar	+ 2.5	+ 2.6	127.1	132.4	119	125	194	139	–	-7.7
Netherlands	+ 28.5	Mar	+ 2.9	Q1	+ 2.9	+ 3.1	101.4§	97.7	0.86	1.07	1.40	–	0.72	-1.6
Spain	− 43.6	Mar	− 18.2	Feb	− 2.2	− 2.2	76.4§	74.1	0.86	1.07	1.40	–	0.72	-0.4
Sweden	+ 15.5	Apr	+ 9.9	Dec	+ 3.6	+ 3.6	81.5	77.1	7.81	9.75	12.7	9.12	6.57	0.7
Switzerland	+ 5.0	Apr	+ 32.0	Q4	+11.7	+11.7	113.3	113.3	1.31	1.57	2.14	1.53	1.11	na
United States	−514.3	Mar	−503.4	Q4	− 5.3	− 5.4	102.4	116.9	–	–	1.63	1.17	0.84	-4.6
Euro area	+ 87.2	Mar	+ 48.0	Mar	+ 0.7	+ 0.6	91.5	80.9	0.86	1.07	1.40	–	0.72	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.3	Mar	+ 9.9	Mar	na	na	81.0§	77.8	0.85	1.07	1.40	–	0.72	3.1
Greece	− 22.8	Mar	− 11.1	Mar	na	na	59.0§	57.4	0.85	1.07	1.40	–	0.72	-1.0
Iceland	+ 0.1	Apr	nil	Q4	na	na	96.0**	84.9	72.4	90.8	118	84.6	61.0	nil
Ireland	+ 36.2	Mar	− 0.2	Q4	na	na	93.0§	86.9	0.85	1.07	1.40	–	0.72	-0.8
Luxembourg	− 3.1	Feb	+ 1.7	Q4	na	na	102.0§	98.8	0.85	1.07	1.40	–	0.72	0.2
New Zealand	− 0.9	Apr	− 1.9	Q4	na	na	98.1	90.3	1.74	2.06	2.84	2.03	1.46	0.8
Norway	+ 27.9	Apr	+ 27.5	Mar	na	na	100.1	104.5	6.72	7.89	11.0	7.84	5.66	11.3
Portugal	− 12.5	Feb	− 8.8	Feb	na	na	92.2**	90.1	0.85	1.07	1.40	–	0.72	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, January average.

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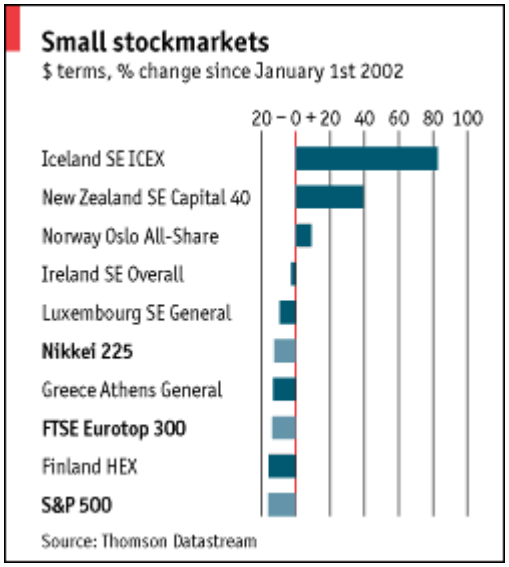
Small stockmarkets

Jun 5th 2003
From The Economist print edition

Since the beginning of 2002, the world's big stockmarket indices have been dull, while some smaller ones have shone: Iceland's stockmarket, for example, has risen by 83%, and New Zealand's by 39%.



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Overview

Jun 5th 2003
From The Economist print edition

The impact of the SARS virus on **Hong Kong's** economy is becoming clearer. GDP shrank by 0.3% in the first three months of 2003 compared with the last quarter of 2002. That was less of a contraction, however, than many analysts had feared. Compared with a year earlier, Hong Kong's GDP grew by 4.5%. Because of SARS, the government's official economic growth forecast for 2003 has been cut in half, from 3% to 1.5%.

Turkey's battle against inflation is proving tough. In the year to May, consumer prices in the country rose by 30.7%, higher than analysts' predictions.

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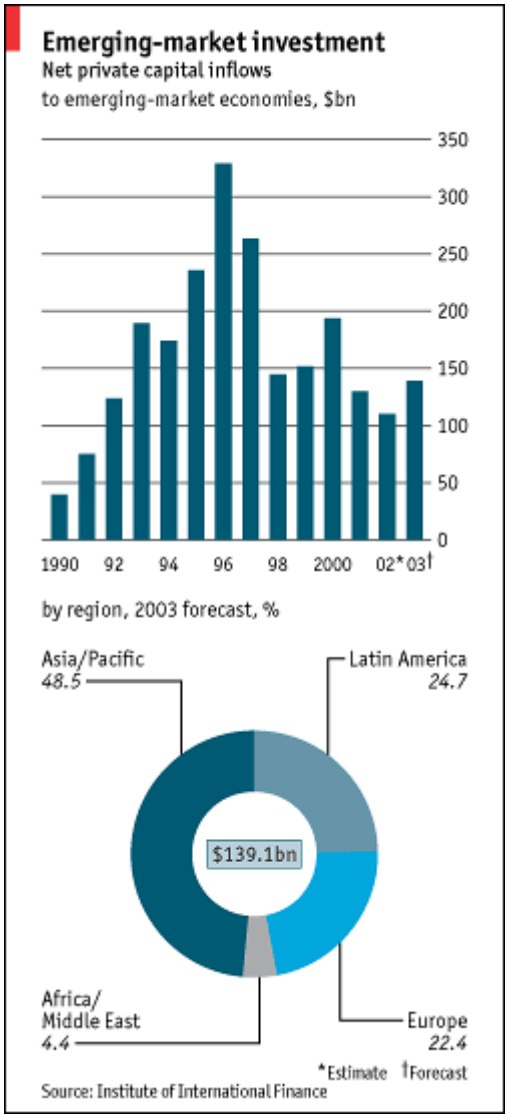
Emerging-market investment

Jun 5th 2003
From The Economist print edition

Emerging economies should see a modest increase in net private capital inflows this year, according to the Institute of International Finance (IIF), an association of financial institutions. The IIF expects a net inflow of $139 billion in 2003, up from $110 billion last year, the lowest level in a decade. Foreign direct investment, the biggest component of private capital flows, is expected to fall slightly, from $111 billion in 2002 to $109 billion in 2003. Bond finance is expected to double thanks to a dramatic fall in emerging-market bond spreads.



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Economy

Jun 5th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q1	+14.9	Apr	+ 1.0	Apr	+22.0	Apr	+35.4	2002	312.9	Feb
Hong Kong	+ 4.5	Q1	– 9.2	Q4	– 1.8	Apr	– 8.0	Apr	+13.8	Q4	114.2	Apr
India	+ 2.6	Q4	+ 6.0	Mar	+ 4.1	Mar	–10.1	Apr	+ 4.8	Q4	73.5	Apr
Indonesia	+ 3.4	Q1	+29.2	Feb	+ 6.9	May	+25.5	Apr	+ 7.1	Q3	32.6	Apr
Malaysia	+ 4.0	Q1	+ 5.0	Mar	+ 1.0	Apr	+15.6	Apr	+ 7.3	Q4	34.4	Apr
Philippines	+ 4.5	Q1	+ 7.3	Mar	+ 2.7	May	– 0.1	Mar	+ 3.1	Feb	13.1	Apr
Singapore	+ 1.6	Q1	– 5.0	Apr	+ 0.9	Apr	+11.5	Apr	+21.3	Q1	83.4	Apr
South Korea	+ 3.7	Q1	+ 1.8	Apr	+ 3.2	May	+ 7.6	May	+ 2.6	Apr	123.6	Apr
Taiwan	+ 3.2	Q1	– 0.7	Apr	– 0.1	Apr	+16.5	Apr	+26.0	Q1	170.6	Apr
Thailand	+ 6.1	Q4	+16.2	Apr	+ 1.9	May	+ 4.3	Apr	+ 8.6	Apr	36.8	Mar
Argentina	+ 5.2	Q1	+12.6	Apr	+19.4	Apr	+16.8	Apr	+ 8.9	Q4	11.0	Apr
Brazil	+ 2.0	Q1	+ 3.5	Mar	+17.4	Apr	+19.3	May	– 3.4	Apr	42.3	Mar
Chile	+ 3.5	Q1	+ 0.6	Apr	+ 3.5	May	+ 2.2	Apr	– 0.6	Q1	15.9	Apr
Colombia	+ 3.8	Q1	+ 5.0	Feb	+ 7.8	Apr	– 0.4	Feb	– 1.6	Q4	10.5	Apr
Mexico	+ 2.3	Q1	+ 3.8	Mar	+ 5.3	Apr	– 6.9	Apr	–12.7	Q1	53.7	Apr
Peru	+ 5.2	Mar	+ 5.5	Mar	+ 2.4	May	+ 0.3	Mar	– 1.1	Q4	9.8	Apr
Venezuela	–29.0	Q1	–14.7	Mar	+33.5	Apr	+15.0	Q1	+ 9.5	Q1	8.4	Feb
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.6	Mar	– 7.4	Jan	+ 0.5	Q4	13.1	Apr
Israel	+ 0.3	Q1	+ 2.9	Mar	+ 3.1	Apr	– 5.8	Apr	– 2.1	Q4	23.7	May
South Africa	+ 2.5	Q1	– 0.7	Mar	+ 8.8	Apr	+ 3.3	Apr	+ 0.3	Q4	6.0	Apr
Turkey	+11.4	Q4	+ 5.6	Mar	+30.7	May	–17.3	Mar	– 3.7	Mar	26.9	Apr
Czech Republic	+ 1.5	Q4	+ 7.0	Mar	– 0.1	Apr	– 2.7	Apr	– 4.4	Q1	24.6	Apr
Hungary	+ 2.7	Q1	+ 4.2	Mar	+ 3.9	Apr	– 2.5	Mar‡	– 3.3	Mar	12.8	Apr
Poland	+ 2.1	Q4	+ 8.3	Apr	+ 0.3	Apr	–10.0	Apr	– 5.5	Apr	29.9	Apr
Russia	+ 5.2	Q4	+ 7.1	Apr	+14.7	Apr	+52.2	Mar	+38.3	Q1	56.1	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 2.2	Apr	– 1.5	Apr	+ 2.7	2002†	10.3	Mar
Saudi Arabia	+ 0.7	2002§	na		– 0.9	Jan	+38.6	2002§	+11.7	2002	22.8	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. §Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Jun 5th 2003
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 4th		Dec 31st 2002	
	Jun 4th	year ago	Jun 4th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.5	na	1,648.4	+1.5	+ 16.2	+ 16.2
Hong Kong	7.80	7.80	12.7	1.34	9,662.8§	+1.6	+ 3.7	+ 3.7
India	46.8	49.0	76.4	4.78	3,216.5	+2.7	– 4.8	– 2.4
Indonesia	8,153	8,925	13,305	11.10	504.5	+2.4	+ 18.7	+ 30.3
Malaysia	3.80	3.80	6.20	3.10	672.8	+1.3	+ 4.1	+ 4.1
Philippines	53.1	50.9	86.7	7.94	1,122.1	+7.1	+ 10.2	+ 10.7
Singapore	1.73	1.80	2.82	0.69	1,401.2	+4.7	+ 4.5	+ 5.1
South Korea	1,200	1,214	1,958	4.30	640.3	+1.9	+ 2.0	+ 0.8
Taiwan	34.6	34.0	56.5	1.25	4,678.1§	+4.6	+ 5.1	+ 5.5
Thailand	41.6	42.5	67.9	1.76	412.7	+2.4	+ 15.8	+ 19.9
Argentina	2.82	3.63	4.61	4.60	701.8	+3.5	+ 33.7	+ 59.4
Brazil	2.91	2.61	4.76	26.27	13,718.1	+3.2	+ 21.7	+ 47.9
Chile	713	662	1,164	2.64	5,973.2	+1.6	+ 19.0	+ 20.2
Colombia	2,849	2,334	4,649	7.54	1,969.9	+0.1	+ 22.5	+ 23.2
Mexico	10.38	9.73	16.9	4.72	6,889.8	+3.3	+ 12.4	+ 13.3
Peru	3.49	3.47	5.70	3.73	1,828.3	+2.2	+ 31.3	+ 32.3
Venezuela	1,598	1,081	2,608	16.33	12,615.8	+9.4	+ 57.4	+ 36.6
Egypt	5.98	4.63	9.77	10.11	8,006.7	– 1.7	+ 49.1	+ 15.3
Israel	4.39	4.96	7.16	5.09	426.8	– 1.6	+ 28.4	+ 39.0
South Africa	8.2	9.9	13.4	12.85	8,748.8	+2.0	– 5.7	– 1.5
Turkey	1,441,000	1,440,500	2,351,712	37.00	11,084.7	– 3.1	+ 6.9	+ 23.1
Czech Republic	27.0	32.5	44.1	2.36	568.4	+2.9	+ 23.4	+ 37.5
Hungary	228	258	371	6.69	8,394.3	+0.7	+ 7.6	+ 6.3
Poland	3.82	4.02	6.23	5.31	15,472.3	+2.7	+ 7.7	+ 8.2
Russia	30.7	31.4	50.1	18.00	459.4‡	– 2.5	+ 22.9	+ 27.9
EMF (MSCI)*	1.00	1.00	1.63	na	319.9	+2.2	na	+ 9.5
EMBI+†	1.00	1.00	1.63	na	276.6	+1.8	na	+ 20.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. §June 3rd.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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